

# ***Comprehensive Financial Plan***

## ***FY 2000/01***



### **The Tempe Way**

#### **MISSION:**

To make Tempe the best place to live, work and play.

#### **VALUES:**

People... Integrity... Respect... Openness... Creativity... Quality...

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*Neil G. Giuliano*  
Mayor

*Leonard Copple*  
Vice Mayor

*P. Ben Arredondo*  
Councilmember

*Dennis Cahill*  
Councilmember

*Barbara J. Carter*  
Councilmember

*Hugh Hallman*  
Councilmember

*Mark W. Mitchell*  
Councilmember

*Will Manley*  
City Manager

*Patrick M. Flynn*  
Assistant City Manager

*Rich Oesterle*  
Financial Services Director

*Cecilia Velasco-Robles*  
Budget Manager

*Gary Robinson*  
Strategic Planning Director

*Debbie Bair*  
Budget and Research Analyst

*Michelle Caruso*  
Budget and Research Analyst

*Travis Clark*  
Budget and Research Analyst

*Anita Erspamer*  
Management Assistant

The City of Tempe's Comprehensive Financial Plan (CFP) is a forecast tool to assist policy makers in determining the long-term impact of budgetary decisions in each of the City's major operating funds and Capital Improvement Program over a five-year period. The Comprehensive Financial Plan should not be confused with the City's budget. Rather, the CFP is a forecast model, based upon a set of well-reasoned assumptions, upon which budget policies may be formulated.

The individual fund forecasts form the "core" of this document and include tables and graphs depicting our estimates of revenues and expenditures. In addition, the plan includes information regarding Tempe's long-term financial policies, plus recommendations that form a "financial action plan" for maintaining the City's financial health. The contents of this document are divided into the following sections:

- ◆ Forecast Summary
- ◆ Fund Overviews/Fund Forecasts
- ◆ Debt Management Plan
- ◆ Financial Action Plan

### **Forecast Summary**

This section summarizes the major operating budget findings of the Plan and provides an overview of Tempe's projected financial condition over the next five years. In addition, the Summary contains tables and graphs depicting Tempe's current revenue and expenditure budget, providing a "frame of reference" for the fund forecasts that follow. To assist the reader in understanding how we arrived at our estimates, the summary section includes information on our forecasting methodologies, major revenue and expenditure assumptions, and the economic outlook that guides the forecast.

### **Fund Overviews/Fund Forecasts**

Each fund forecast includes a detailed description of the revenue and expenditure structure within the fund (sources of revenue and uses of resources). These descriptions aid in the understanding of the wide variety of issues associated with projecting both revenues and expenses. The fund forecasts appear immediately following the fund overviews. The graphical displays at the beginning of each fund's section reflect a four-year historical review of actual revenues and expenditures, along with all years of the forecast. Detailed tables displaying revenue and expenditure forecasts round out each fund forecast. The graphical displays are "roll-up" summaries of the detail tables.

### **Debt Management Plan**

This section presents the comprehensive debt program, which includes background narrative, rating information, measurement of debt burden, debt ratios and debt policies.

### **Financial Action Plan**

This section focuses on an array of recommendations having the long-term goal of maintaining Tempe's sound financial condition. The recommendations cover such issues as expenditure control strategies, debt management planning, employee benefits, and strategic issues budgeting.

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If you have questions or comments regarding this document, please contact the City of Tempe Office of Budget and Research. Our telephone number is (602) 350-8350. Also, City of Tempe budget documents can be viewed on the Internet at [www.tempe.gov](http://www.tempe.gov).

# Comprehensive Financial Plan

## Forecast Summary



## Overview

### Introduction

The Comprehensive Financial Plan, first published in March 1991, is a vital component of Tempe's financial management strategy. Its purpose is to provide a five-year perspective on the financial condition of each of the City's major appropriated funds. As a planning tool for short-term budgetary decisions, the Plan gives us insight into the long-term implications of today's policy choices.

### Study Approach

As part of this study, the Management and Budget Section within Financial Services has established financial models that examine the City's appropriated operating funds and their underlying revenue and expenditure structures for the period of fiscal year 2001-2002 through fiscal year 2005-06.

Forecast models are presented along with trends, forecasts, and fund balances for each of the major funds.

Operating funds examined include the:

- General Fund
- Transportation Fund
- Transit Fund
- Water/Wastewater Fund
- Sanitation Fund
- Golf Fund
- Rio Salado Fund

### Major Study Findings

Highlights of the major findings and conclusions from the long-range financial study follow:

(A) The City continues to have strong fund balances and reserves. This is best depicted by the following:

- The City's unrestricted fund balance in the General Fund totaled \$38.6 million as of June 30, 2000. This balance represents 31.1% of FY 1999-01 total General Fund revenue (25% is the working guideline used by the City as an optimum fund balance level).
- Self-insurance reserve of \$9.4 million (considered adequately protected from potential liability claims).
- Restricted debt service reserves of \$7.6 million, sufficient to absorb debt obligations over the next five years.
- Water/Wastewater fund balance of \$56.4 million provides necessary coverage for operating and capital expenses and critical strategic flexibility over the next several years.
- The City enjoys bond ratings of:  
"AAA" --Fitch,  
"AA+ " --Standard and Poor's  
"Aa1"-- Moody's

(B) Revenue growth and operating surpluses in the General Fund have allowed the City to address high priority needs in public safety, information technology, development and community services. Annual operating surpluses, in the General Fund, are expected to decrease over the next five years as the economy enters a period of predicted slower growth, affecting economic-sensitive revenue sources (such as the sales tax).

(C) The successful transit tax proposal in September 1996, increasing the sales and use tax rate by one half of one percent should provide sufficient revenue for transit purposes through the end of the forecast period. It should be noted that Light-Rail operating impacts are planned to occur in FY 2006-07, which is beyond the five year horizon of this report.

adjustments to avoid operating deficits and to maintain adequate reserves for capital needs and contingencies.

(D) Our projection is for continued reductions in our percentage share of state revenues for transportation from the Highway User Revenue Fund (HURF) and the state Lottery as Tempe's share of statewide population falls. This factor, combined with expenditure growth, may produce a deficit condition in the Transportation Funds in future years.

(E) The Water/Wastewater Fund may require further rate increases over the next five years to meet the fiscal impact of water/wastewater compliance and sewer capacity demands. These costs are driven primarily by federally mandated modifications at the 91<sup>st</sup> Avenue Wastewater Treatment Plant, increased sewage processing capacity, along with compliance required improvements.

In the near term, we expect rate adjustments to occur in the wastewater operation, utilizing a phased-in approach to bring wastewater into full cost recovery and to ensure that all customers are charged equitably based on discharge volume and strengths. In November 1999, sewer rates were increased for residential, commercial and industrial customers as part of a planned three year phased-in rate increase to bring sewer customers closer to full cost recovery.

(F) Continued close monitoring of the Sanitation and Golf Enterprise Fund operations will be required, which may include the possibility of rate



## Financial Overview

The following financial overview provides a summary of revenues, expenditures, and historical budget trends.

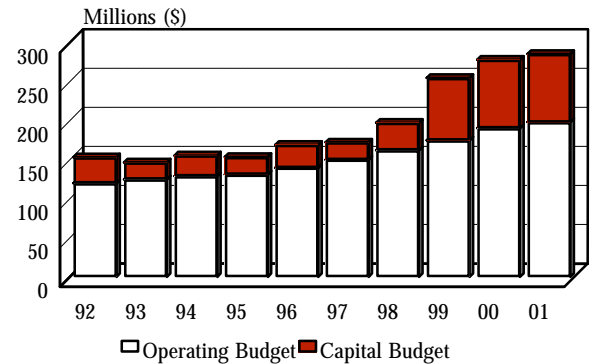
The FY 2000-01 total budget of \$270.1 million provides for a \$208.8 million operating budget and a \$61.3 million capital budget. The operating budget includes \$117.7 million of general governmental operations, \$49.9 million of enterprise operations (water/wastewater, sanitation, and golf) and \$41.2 million of special revenue operations (transportation, transit, redevelopment, and housing).

Major funding sources include \$86.0 million in local taxes (sales and property), \$34.6 million of intergovernmental revenues, \$53.3 million of enterprise revenues, and \$49.5 million of special revenues (Transit, Highway User, Lottery, Community Development Block Grant and Section 8 Housing).

Total budgeted revenues for FY 2000-01 are \$270.1 million, with operating revenues of \$242.4 million and the remainder from bond proceeds and other CIP funding. General Governmental revenues combine for \$139.5 million of the total operating revenues, including \$49.5 million of special revenues. Enterprise revenues represent the remainder of total operating revenues, most of which derives from water/wastewater service charges and user fees.

Summary overviews of FY 2000-01 appropriations and revenues provide a base reference for the fund specific forecast models that follow. A ten year history of budget trends is given below.

Ten Year Budget Trends

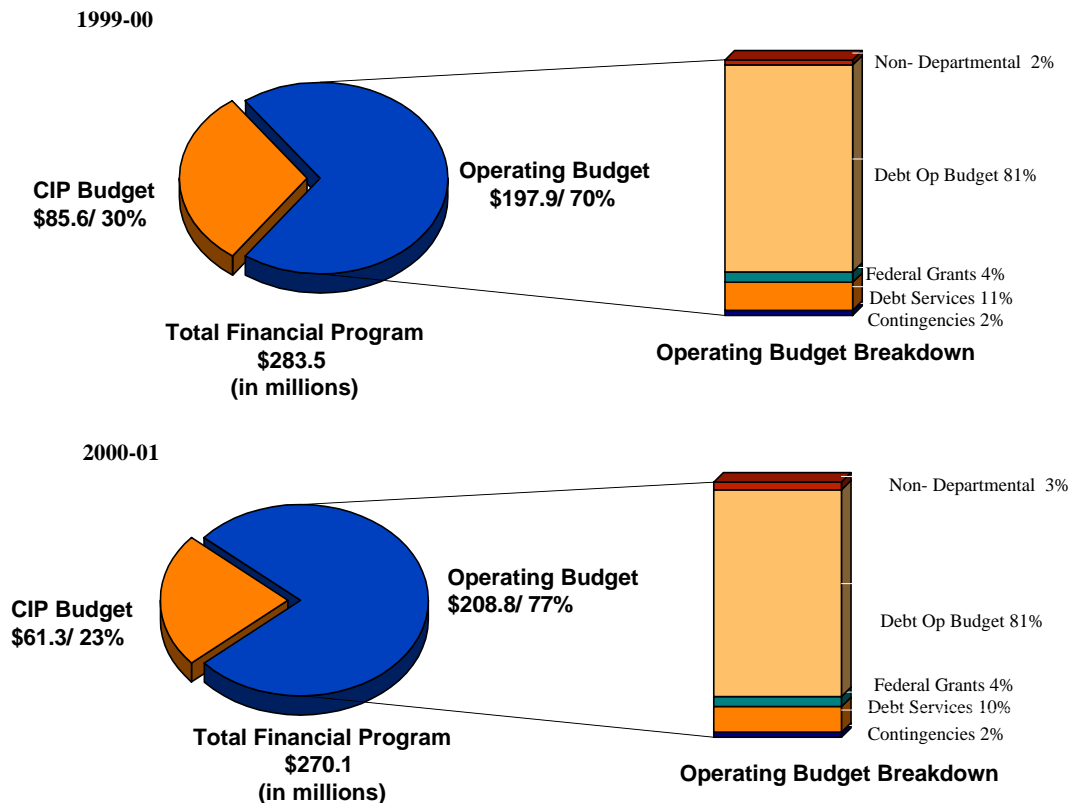


Fiscal Year	Operating Budget	Capital Budget	Total Budget
2000-01	\$208,817,681	\$61,256,862	\$270,074,543
1999-00	197,926,204	85,587,326	283,513,530
1998-99	190,459,638	87,651,929	278,111,567
1997-98	174,865,699	79,717,004	254,582,703
1996-97	162,042,739	35,466,698	197,509,437
1995-96	150,047,736	22,192,124	172,239,860
1994-95	139,929,485	29,283,757	169,213,242
1993-94	131,123,501	22,357,612	153,481,113
1992-93	129,172,994	26,199,719	155,372,713
1991-92	124,937,849	21,825,485	146,763,334

## Total Financial Program



The total financial program adopted for the biennial budget is \$283.5 million for FY 1999-00 and \$270.1 million for FY 2000-01. Year 1 of the biennium reflects a \$197.9 million operating budget and an \$85.6 million Capital Improvement Program, representing a 1.9% increase from the FY 1998-99 total financial program. In Year 2, the operating budget increases to \$208.8 million, while the CIP budget falls to \$61.3 million, a 4.7% reduction in the total financial program from FY 1999-00. Operating budget growth of 3.9% and 5.5% in FY 1999-00 and FY 2000-01, respectively, is related primarily to increased funding for public safety personnel, continued expansion of the transit program, and inflation.



Total Financial Program			
	1998-99	1999-00	2000-01
Operating Budget			
Departmental Operating Budget	\$139,965,726	\$158,579,069	\$169,905,279
Debt Service	33,866,274	22,634,610	21,719,070
Non-Departmental	4,778,581	4,792,394	5,213,101
Contingencies	4,170,610	4,360,134	4,420,234
CDBG/ Section 8 Housing	7,678,447	7,559,997	7,559,997
<b>Total Operating Budget</b>	<b>\$190,459,638</b>	<b>\$197,926,204</b>	<b>\$208,817,681</b>
Capital Improvements	87,651,929	58,587,326	61,256,862
<b>Total Financial Program</b>	<b>\$278,111,567</b>	<b>\$283,513,530</b>	<b>\$270,074,543</b>



**2000-01  
Total Budget  
\$270,074,543**

**Operating Budget**

**\$208,817,681**

**Capital Budget**

**\$61,256,862**

**General  
Governmental  
Fund  
\$117,663,595**

**Enterprise  
Fund  
\$49,918,388**

**Special  
Revenue  
Funds  
\$41,235,698**

**General  
Purpose  
\$19,438,948**

**Enterprise  
\$19,808,000**

**Transportation  
\$4,778,971**

**Special  
Purpose  
\$17,230,943**

**Public  
Safety  
\$56,190,144**

**General  
Services  
\$23,104,796**

**Community  
Services  
\$22,151,923**

**Development  
Services  
\$7,528,417**

**Debt  
Service  
\$5,208,799**

**Transportation  
\$1,850,000**

**Environmental  
Health  
\$1,629,516**

**Water/  
Wastewater  
\$37,401,040**

**Sanitation  
\$10,380,122**

**Golf  
\$2,137,226**

**Transit  
\$19,096,197**

**Highway  
User  
\$13,104,279**

**Section 8  
Housing  
\$5,138,912**

**CDBG  
\$2,421,085**

**Rio  
Salado  
\$1,475,225**

**General  
Governmental  
\$9,736,389**

**Park  
Improvement  
\$3,887,000**

**Police  
\$2,867,070**

**Fire  
\$2,250,489**

**Storm  
Drains  
\$698,000**

**Wastewater  
\$12,400,000**

**Water  
\$6,783,000**

**Golf  
\$625,000**

**Streets  
\$3,420,346**

**Signals  
\$1,020,000**

**Bikeways  
\$338,625**

**Transit  
\$12,307,860**

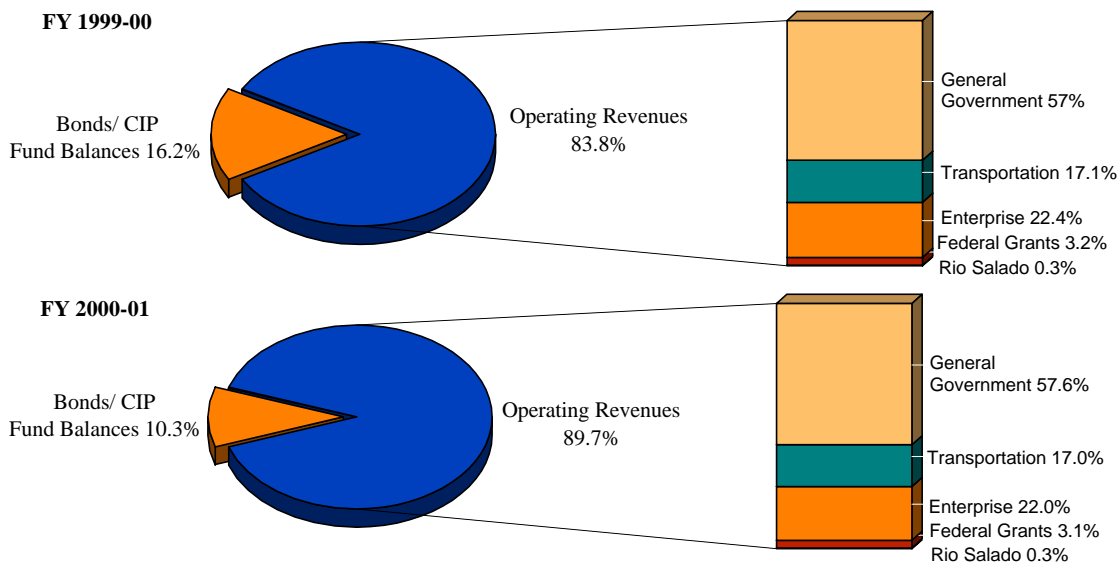
**Rio Salado  
\$4,923,083**



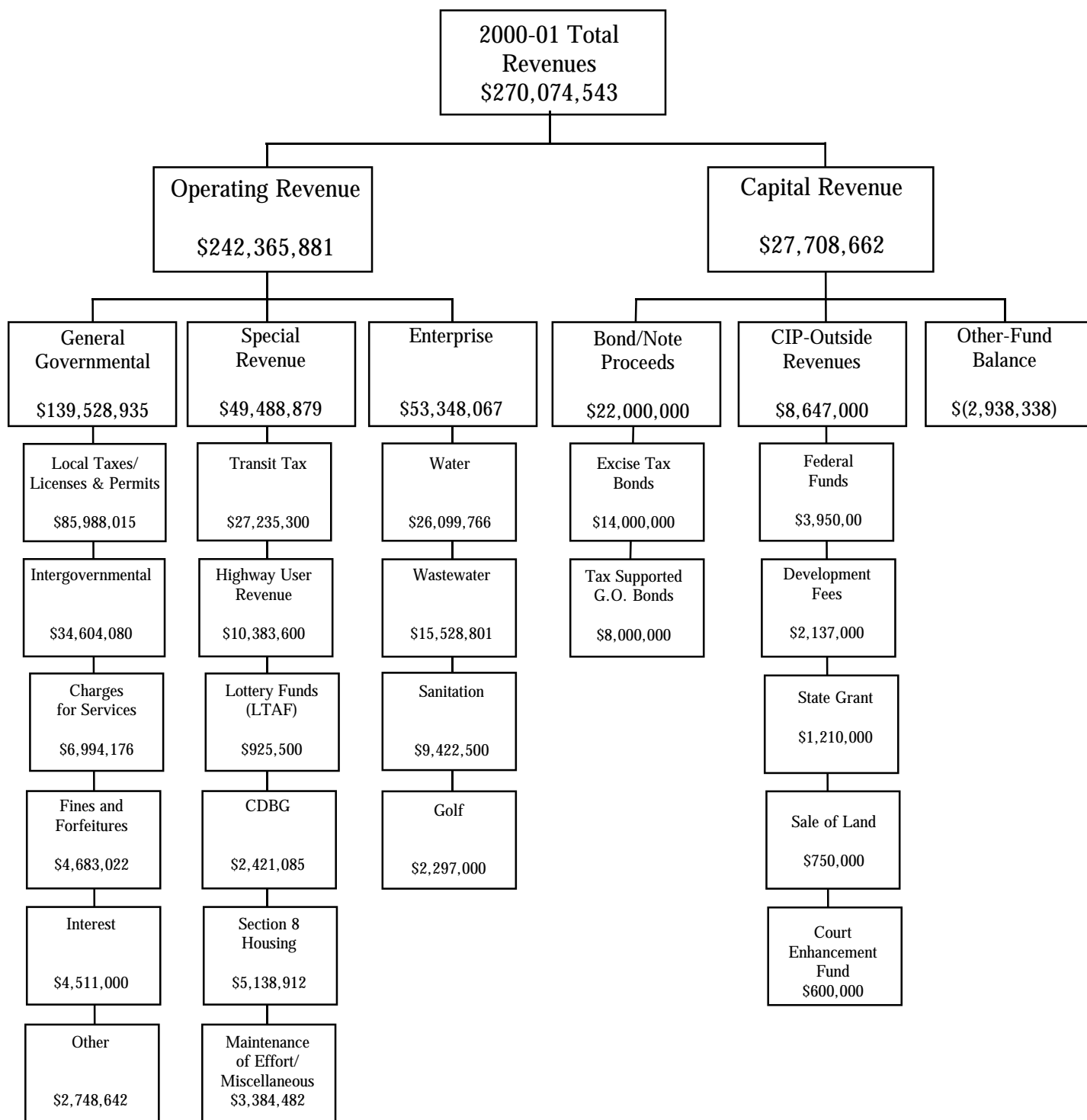
## Total Revenue



Total revenue for the biennial budget is estimated at \$283.5 million for FY 1999-00 and \$270.1 for FY 2000-01, reflecting \$237.7 million in operating revenue and \$45.8 million from Bond Proceeds, Fund Balances and Other Funding Sources in FY 1999-01, and \$242.4 million in operating revenue and \$27.7 million from Bond Proceeds, Fund Balances and Other Funding Sources in FY 2000-01. The FY 1999-00 operating revenue total represents 5.4% growth over budgeted FY 1998-99 operating revenues, with operating revenue growth expected to slow to 2% in FY 2000-01. A slowing in the pace of development and taxable sales growth is expected over the biennium, reflecting consensus forecasts for an economic downturn over the next 2-3 years. Bond Proceeds and Other Funding Sources will fall in the second year of the biennium, corresponding to reductions in the size of the Capital Improvements Program budget.



TOTAL REVENUES		
	1999-00	2000-01
<b>Operating Revenues</b>		
General Governmental		
Local Taxes, Licenses and Permits	\$82,125,738	\$85,988,015
Intergovernmental	33,692,880	34,604,080
Charges for Services	6,946,079	6,994,176
Miscellaneous	12,734,453	11,942,664
Transportation	40,559,682	41,143,282
CDBG/Section 8 Housing	7,559,997	7,559,997
Rio Salado Special Revenue	753,500	785,600
Enterprise	53,303,467	53,348,067
<b>Total Operating Revenues</b>	<b>\$237,675,796</b>	<b>\$242,365,881</b>
<b>Operating Revenue Per Capita</b>	<b>\$1,478.06</b>	<b>\$1,492.31</b>
Bond/Note Proceeds	24,000,000	22,000,000
CIP Other Funding	14,934,500	8,647,000
Fund Balances	6,903,234	(2,938,338)
<b>Total Revenues</b>	<b>\$283,513,530</b>	<b>\$270,074,543</b>
<b>Total Revenues Per Capita</b>	<b>\$1,763.12</b>	<b>\$1,662.92</b>



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## **Forecast Methodology**

Forecasting as used in this report refers to the estimating of the future values of revenues and expenditures. It provides an estimate of how much revenue will be available and the resources required to meet current service levels and programs over the forecast period, along with an understanding of how the total financial program will be affected by the demographic and economic factors driving these forecasts. The value of forecasts is in estimating whether, given assumptions about local financial policies and economic trends, the City will have sufficient resources to meet the resource requirements of ongoing, planned, or mandated programs. Forecast models have the added value of providing a planning tool for capital projects and/or whether bonded indebtedness will be required for capital funding. In short, forecasting provides an estimate of the financial flexibility of the City, as well as insight into tax, revenue, and service options the Council must address.

Our forecasting methodology reflects a combination of internal analysis and locally generated consensus forecasts covering such factors as population growth, retail sales, and inflation. Specifically, for the revenue forecasts, we begin with models that include prior year actual collections and project the balance of the current fiscal year based on prior year patterns. For the remaining years of the revenue forecast, we look to consensus forecasts (such as the Bank One Arizona Blue Chip Forecast, Western Blue Chip Economic Forecast, and AZB/Arizona Business published by the ASU College of Business) for an indication of the expected trends in key economic and demographic indicators. Typically, these forecasts cover the state or the metro-Phoenix area as a whole, so

adjustments to reflect unique conditions in Tempe are sometimes necessary. In general, we seek to match revenue sources with the economic and/or demographic variables that most directly affect year-to-year changes in those revenues. For example, a revenue such as the city sales tax will reflect consensus forecasts related to taxable sales growth; whereas, revenue from building permits and plan review will be tied to the expected trends in development and redevelopment. Other revenues, such as those from recreation services, are linked to Tempe's expected population growth. By identifying and utilizing as many revenue-related variables as possible in our forecast, we hope to minimize the risks of overstating or understating revenues that could arise from using only a few variables to forecast all revenue sources.

For expenditures, growth is most closely linked to two major factors: 1) inflation (including general inflation, market adjustments to salaries, and changes in benefits costs), and 2) City financial policies related to the amount of new funding added each year for new programs and/or the expansion of existing programs (including new funding associated with Capital Improvement Program projects). As with our revenue forecasts, we consider consensus forecasts related to general inflation (particularly the trends projected). For certain expenditure categories (such as fuel and utilities), we apply inflation factors that reflect the historical rate of price inflation in these categories relative to overall inflation. Amounts for new programs and/or program expansions are assumed to be constant over the forecast period (same amount is added to each year of the forecast).



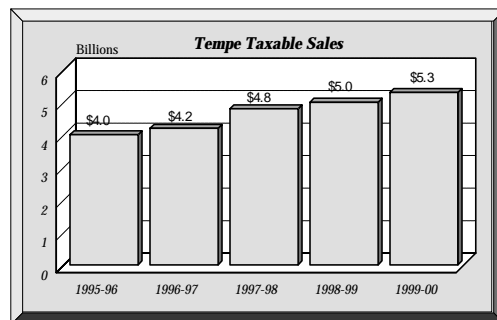
## Forecast Assumptions

Our approach to forecasting, in general, is to apply a conservative philosophy that will produce our long-term goal of not overstating revenues nor understating expenditures. We recognize that economic forecasting is not an exact science and at times relies upon the best professional judgement of the forecaster. To reduce the risks of miscalculating revenues or expenditures, we attempt to identify as many factors as possible that may contribute to changes in revenues and expenditures. The City's revenue and expenditure budgets are comprised of many unique elements that respond to a variety of external factors such as population growth, development, inflation, and interest rates. The following provides our assumptions relating to major revenues and expenditures.

### Major Revenue Assumptions

#### ■ **Tempe Taxable Sales**

Taxable sales in Tempe have increased an average of \$256 million each year over the past five years, indicative of continued development in Tempe and the strong local economy. As the table below shows, taxable sales are \$1.3 billion (33%) higher in FY 1999-00 than total taxable sales in FY 1995-96.



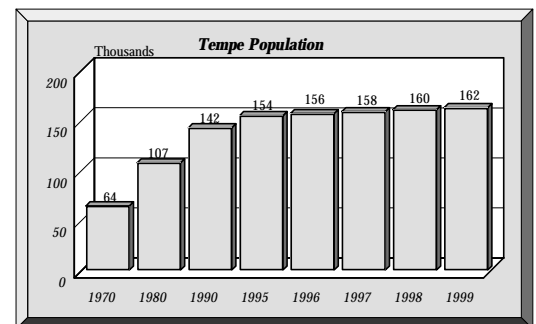
In the forecast, General Fund retail sales are expected to increase by 5.1% in FY 2000-01, with the level of growth gradually slowing over the period of the forecast, with 3.6% annual growth being the norm in the later years of the

forecast. This declining rate of growth is based on the predictions of economists for an expected economic downturn over the next 2-3 years.

This level of expected growth covers all forms of sales that generate sales tax revenue for the City. The primary categories of sales (based on FY 1999-00 annual averages) are retail sales (52%), commercial and residential rent (17%), utility sales (9%), restaurant sales (7%), and building materials sales (7%). Construction sales are expected to decline sooner than retail and other sales as a slowdown in construction typically precedes an overall economic downturn.

#### ■ **Population**

Population in Tempe is assumed to increase by 1.08% in FY 2000-01, with the rate of growth gradually declining over the forecast period to 1.01% annual growth by FY 2005-06. State population growth is assumed to average 2.7% per year over the next five years.

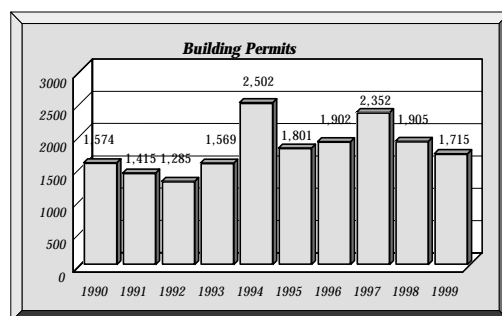


Following the strong population growth period of the late 1970's (5.3%) and the 1980's (2.8%), Tempe is expected to experience steady but slower population growth as land use approaches build out. To a large extent the revenue growth of the 70's and 80's was fueled by the City's population growth.

Continued population growth statewide and in Maricopa County in particular has been credited for much of the increased state revenues during the latest economic expansion. While Tempe is now seeing the benefit of statewide population growth through increased state-shared revenue, our slower pace of growth relative to other cities could produce a smaller share of the statewide pool of funds after the 2000 Census. That decline will affect our FY 2001-02 revenues. Our long-range revenue forecasts reflect these economic assumptions and the estimated impact of the 2000 census.

#### ■ **Development/Redevelopment**

New housing and commercial starts (construction activity) are expected to decline to a moderate level of activity as the City's undeveloped land approaches build-out. Building permit activity for 2001 should decline, after the 1997 peak during this latest construction cycle. While we expect redevelopment efforts to sustain some level of construction activity, we have conservatively assumed a level of growth equivalent to the projected rate of population growth.



#### ■ **State-Shared Revenue**

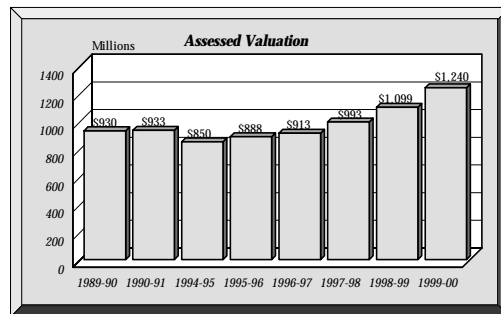
For purposes of the forecast, we have assumed that State law related to shared revenue distributions will remain unchanged. Recent tax cuts enacted by the state Legislature have contained provisions holding cities and towns harmless from potential

reductions in state-shared revenues, although action in the 1998 legislative session to further reduce the state income tax did not contain a hold harmless provision, meaning that locally-distributed funds will bear a proportionate share of the expected revenue reduction. This latest state income tax cut will affect FY 2000-01 revenues and could result in a \$275,000 reduction in state-shared revenues for Tempe. The forecast reflects this potential loss in FY 2000-01 and its impact on subsequent years.

The temptation to tap the state-shared revenues may persist over the next five years. Therefore our assumption that state revenue distribution formulas will not change may prove to be overly optimistic as the state is faced with the task of balancing its budget.

#### ■ **Assessed Valuation**

Throughout the 1980's, Tempe experienced growth in net secondary assessed valuations. In 1990 this trend began to slow, and in 1991 net secondary assessed valuations increased by only 0.3%. From 1991 through FY 1994-95, Tempe experienced a decline in assessed valuation resulting from a countywide decrease in assessed valuations reflective of the general decline in the real estate market and a methodological change from a "cost" to an "incomes" approach by the county assessor for valuing commercial real estate.



In FY 1999-00, Tempe's secondary assessed valuation was up by 12.9%, following 10.6% growth the prior year. Consistent with the City's Debt Management Plan, the forecast assumes a 9.3% annual increase in assessed valuation in FY 2000-01, with assessed value growth gradually slowing over the period of the forecast to 3.50% by FY 2005-06. In November 1999, the Maricopa County Assessor's Office implemented a two-year cycle of valuations of residential, vacant land, and agricultural properties. This will cause a freeze on property valuations and incur a fiscal impact of approximately \$227,000 to the City of Tempe in FY 2002-03.

#### ■ **Interest Rates/Cash Balances**

Interest revenue is expected to increase modestly in most funds, while yields tied primarily to short-term government interest rates are expected to average 5.5% for FY 2000-01 and declining to 5.0% in FY 2005-06. Some planned, short-term drawdowns of cash balances may occur periodically over the period of the forecast, reducing interest earnings.

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**Major  
Expenditure  
Assumptions**

■ ***Salaries and Wages***

On the expenditure side, we have assumed a salary and wage market adjustment of 3.5% in FY 2000-01 and in all subsequent years through FY 2005-06. Any planning for the next several years must address the issue of compensation because of its significant expenditure impact. For example, every one percent change in compensation has an estimated expenditure impact of \$700,000 to the General Fund and another \$150,000 to the Enterprise Funds. It is obvious that whatever policy decision is made with regard to compensation scenarios will have a profound effect on future decision-making options.

■ ***Fringe Benefits***

Health insurance costs continue to rise at a range of 12-15% annually. Market forces, the movement towards managed care, and an excellent claims history had contained the growth in the City's health care costs for a time, but we are now seeing a resumption of growth in excess of general inflation, much of which is derived from higher claims costs.

Our expectation is that health care costs will rise at a rate exceeding the overall Consumer Price Index. Historically, annual growth in the health care component of the metro-Phoenix CPI has been nearly 50% above annual growth in the overall CPI. Retiree health care cost will continue to rise as our work force matures and greater percentages of employees retire.

■ ***Inflation (Consumer Price Index)***

Inflation is expected to increase by 3.75% in FY 2000-01, growing to 4.00% annually for the later years of the forecast. For those areas where exceptions are anticipated, we have factored in higher inflation impacts

specific to those costs. One unknown cost that may prove to be understated is the cost of fuel, which may undergo significant price fluctuations over the period of these projections.

■ ***Supplemental Limits***

For the period of the forecast, we have assumed that recurring General Fund supplemental funding will be limited to \$750,000 for FY 2000-01 and declining to \$500,000 in FY 2005-06 ("supplemental" refers to additional funding for new initiatives, Council priorities, and other new funding).

■ ***Capital Improvement Program  
Operating Budget Impacts***

An important aspect of the City's Capital Improvement Program is the identification of operating budget impacts associated with capital projects. Over the period of the forecast, we estimate that CIP projects will add \$750,000 in annual recurring costs to the General Fund until FY 2004-05 and then decreases to \$500,000 in FY 2005-06. Along with the supplemental limit, a limit for new funding associated with CIP projects will be evaluated annually.

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■ ***State Expenditure Limitation***

The City's FY 2000-01 total financial program is estimated at \$270.1 million, including capital improvements. In May 1996, Tempe citizens approved a budget override to the state imposed expenditure limitation, allowing the City to permanently adjust its FY 1979-80 base budget. The City's base expenditure level of \$29,579,379 established in FY 79-80 increased by \$15 million to \$44,579,379 in FY 1996-97. The new expenditure limitation in FY 2000-01 is \$161,592,142, with allowable exclusions totaling \$128 million.

At the time of the latest voter-approved expenditure limitation adjustment, the City estimated that the new base budget adjustment would be sufficient for 10 years, barring the addition of any major programs. The expanded Transit program, added as a result of the 1996 Transit tax ballot measure, is such a program. Our new estimates show we will have sufficient expenditure limit authority through approximately FY 2003-04. The plan is to seek a similar permanent base adjustment (as was approved in 1996) during the May 2002 General City election to cover expenditures associated with recently budgeted projects and programs.



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## ***Economic Outlook***

Following the mild recession in mid 1990 to 1991, both the local and state economies have enjoyed a prolonged robust period. The metropolitan Phoenix area has been among the nation's leading major metropolitan areas in population and job growth, factors that have undoubtedly benefited Tempe. Tempe's economy, along with those of other Phoenix area cities have also become stronger through increased diversification.

In 1993 Arizona's and Tempe's economic growth accelerated, driven largely by a surge in construction and later joined by growth in other sectors. Construction, however, appears to have peaked during this cycle and will likely decline during the next few fiscal years.

The outlook is for economic growth to continue for the next year or two, but at gradually slowing rates. The consensus among state economic forecasters is for continuing moderate growth in the Arizona economy for the year 2001 and a mild downturn thereafter.

The duration of the economic expansion may largely be a function of Federal Reserve policy, inflation, and the rate of economic growth. Due to the relatively low cost of living and moderate tax burden, the Arizona economy should continue to do well, even with a slow-down in the economy. It is predicted that Arizona's performance relative to other states will continue to be favorable.

## Major Assumptions Used in Forecast Models



	<u>FY 00/01</u>	<u>FY 01/02</u>	<u>FY 02/03</u>	<u>FY 03/04</u>	<u>FY 04/05</u>	<u>FY 05/06</u>
Taxable Sales	5.60%	4.60%	4.50%	4.20%	4.00%	4.00%
General Fund Retail Sales	5.10%	4.20%	4.10%	3.80%	3.60%	3.60%
Sales Tax Rate	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%
Primary Assessed Valuation	9.30%	6.00%	4.00%	3.75%	3.50%	3.50%
Property Tax Rate/\$100 AV	\$ 1.35	\$ 1.35	\$ 1.35	\$ 1.35	\$ 1.35	\$ 1.35
Population	1.08%	1.07%	1.01%	1.01%	1.01%	1.01%
State Shared Income Tax	9.45%	-7.80%	7.30%	6.80%	6.30%	5.90%
State Shared Sales Tax	8.45%	-12.00%	5.60%	5.20%	4.80%	4.50%
Contruccion/Contracting	-5.00%	-4.10%	-4.00%	-3.70%	-3.40%	-3.20%
Interest Earnings	5.50%	5.50%	5.25%	5.00%	5.00%	5.00%
Salary and Wage Market Adjustment	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
FICA	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
State Retirement System	2.66%	2.66%	2.66%	2.66%	2.66%	2.66%
Police Retirement System	9.77%	8.54%	6.50%	6.50%	6.50%	6.50%
Fire Retirement System	3.40%	4.00%	4.00%	4.00%	4.00%	4.00%
Health, Dental & Life Ins.	15.00%	14.04%	11.54%	12.07%	15.38%	14.67%
Retiree Benefits Package	36.79%	45.97%	16.19%	14.59%	12.67%	22.11%
General Inflation	3.75%	3.80%	3.85%	3.90%	3.95%	4.00%
Utilities Inflation	4.65%	4.70%	4.75%	4.80%	4.85%	5.00%
Motor Fuel Inflation	12.00%	12.20%	12.40%	12.60%	12.90%	13.00%
Recurring Supplemental Limit	\$830,000	\$750,000	\$750,000	\$500,000	\$500,000	\$500,000
Non-Recurring Supplemental Limit	\$1,740,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$500,000
CIP Operating Impacts	\$750,000	\$750,000	\$750,000	\$750,000	\$750,000	\$500,000

### Sources:

Arizona and Phoenix Blue Chip Economic Forecast; Arizona State University College of Business

Arizona Business; Arizona State University College of Business

Arizona Public Safety Personnel Retirement System; Gabriel, Roeder, Smith & Company

Arizona's Economy; University of Arizona College of Business and Public Administration

Consumer Price Index for the West--August 2000; U.S. Department of Labor

Projections of City Subsidy, 1999-2008; Watson Wyatt

Debt Service Schedules; City of Tempe Accounting Division

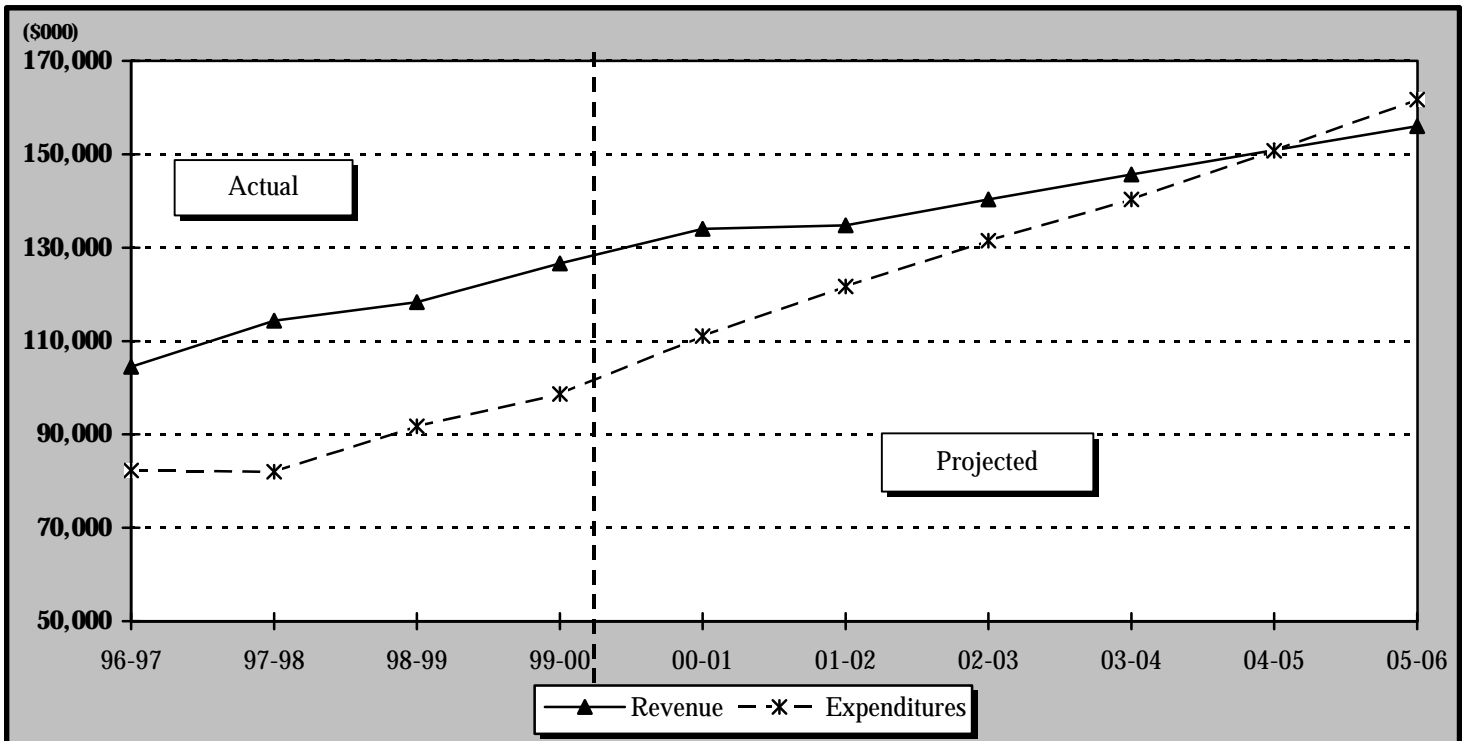
Maricopa Association of Governments (Tempe population estimates)

# Comprehensive Financial Plan

## Fund Overviews/Fund Forecasts



# General Fund: Projected Revenue and Expenditures



	96/97 Actual	97/98 Actual	98/99 Actual	99/00 Actual	00/01 Revised	01/02 Projected	02/03 Projected	03/04 Projected	04/05 Projected	05/06 Projected
<b>Revenue (\$000)</b>										
Local Taxes	57,195	64,014	64,682	68,567	73,941	78,079	81,649	85,293	88,846	92,387
Intergovernmental	26,670	29,026	32,625	36,055	38,251	35,119	37,093	38,726	40,308	41,841
Bldg & Trades/Plan & Zoning	3,693	4,119	2,738	2,958	3,142	3,013	2,893	2,786	2,691	2,605
Cultural and Recreation	3,508	3,762	3,915	4,204	3,852	3,894	3,933	3,973	4,012	4,053
Fines, Fees and Forfeitures	3,269	3,700	4,440	4,778	4,683	4,733	4,781	4,829	4,878	4,927
Business Licenses	937	947	1,100	605	971	971	971	971	971	971
Interest Income	5,217	5,764	5,596	5,940	6,000	5,500	5,500	5,500	5,500	5,500
Franchise Fees	1,019	1,368	1,221	1,281	1,136	1,209	1,273	1,339	1,403	1,466
Other Revenue Sources	2,957	1,630	2,022	2,246	2,038	2,253	2,253	2,253	2,253	2,253
<b>Total Revenue</b>	<b>104,463</b>	<b>114,331</b>	<b>118,338</b>	<b>126,635</b>	<b>134,013</b>	<b>134,770</b>	<b>140,345</b>	<b>145,668</b>	<b>150,861</b>	<b>156,002</b>
<b>Expenditures (\$000)</b>										
Personal Services	61,704	64,646	71,247	79,005	87,472	95,067	102,184	109,366	117,982	127,109
Materials and Supplies	5,250	5,543	5,955	6,324	6,484	6,867	7,275	7,697	8,151	8,623
Fees and Services	11,597	14,013	15,477	15,268	18,161	19,086	20,056	21,039	22,072	23,124
Travel and Training	750	729	903	955	992	1,041	1,092	1,144	1,199	1,255
Non-Dept/Contributions	1,829	2,039	2,009	2,330	2,200	3,943	5,335	5,605	5,890	6,183
Capital Outlay	3,703	2,478	2,396	2,687	2,595	2,732	2,876	3,020	3,171	3,324
Loan Repayment	268	268	268	268	268	268	268	268	268	268
Trans Maintenance of Effort	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850
Internal Services/Adjustments	(4,654)	(9,533)	(8,341)	(10,063)	(8,932)	(9,176)	(9,417)	(9,635)	(9,856)	(10,054)
<b>Total Expenditures</b>	<b>82,297</b>	<b>82,031</b>	<b>91,763</b>	<b>98,625</b>	<b>111,089</b>	<b>121,676</b>	<b>131,518</b>	<b>140,354</b>	<b>150,726</b>	<b>161,680</b>
Designated for Capital Projects	22,165	32,300	26,575	28,009	22,925	13,094	8,827	5,314	135	0
<b>Net Operating Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(5,678)</b>

Note: Actuals reflect budget basis figures represented in the Comprehensive Annual Financial Report.



## Citywide Operating Budget Overview

The citywide operating budget for FY 2000-01 totals \$208.8 million, including \$7.5 million in Community Development Block Grant and Section 8 Housing grant funding. This operating budget amount represents 5.5% growth over last year's \$197.9 million operating budget. The number of authorized full-time employees increased by 34, to 1,657 authorized positions, a 2.1% increase from the revised FY 1999-00 budget.

General Fund appropriations increased by 5.9%, reflecting funding for new employees to address workload increases in the Police Department and Development Services and Council priorities in Community Services, plus increases for employee cost of living adjustments and inflation. Much of the operating budget growth was due to an increase in Police staff for patrol and key support functions. Community Services also increased, reflecting the City's continued commitment to youth and social services programs.

## Fund Structure

### Description

The General Fund is the general operating fund of the City and is used to account for all financial activity not reflected in another fund.

### Major Services

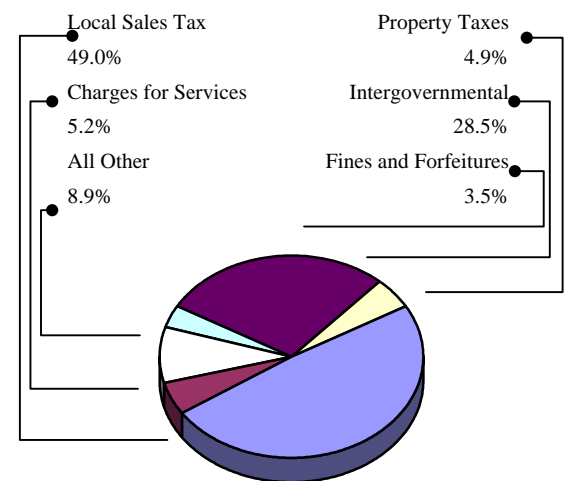
The General Fund consists of the following major functions:

- Police
- Fire
- Financial Services
- Legal Services
- Community Services

- Administrative Services
- Development Services
- Engineering
- Facility Maintenance
- Information Technology

## Revenue Structure

Major revenue sources are: Local Sales Taxes (49.0%), Intergovernmental Revenues (28.5%), Charges for Services (5.2%), Property Taxes (4.9%), Fines and Forfeitures (3.5%) and All Other (8.9%).



Local Sales Taxes and Intergovernmental revenues represent the two major revenue sources in the General Fund. Together they comprise 83.7% of total General Fund revenues. In FY 2000-01, these two sources are estimated to account for \$112.2 million of the \$134.0 million in General Fund revenues.

### ■ Local Sales Taxes

Local sales tax revenues for the General Fund are estimated at \$65.7 million in FY 2000-01, derived from a 1.2% City sales tax. (The estimated sales tax collections amount is based on the General Fund portion of the

## General Fund

City sales tax rate of 1.8%. The remaining amount is restricted for transit purposes (0.5%) and 0.1% for the performing arts (restricted revenue is reflected in their respective funds). Over half of the sales tax revenue comes from retail sales, with the remainder collected primarily from rental payments, utility and telecommunication payments, restaurant and bar sales and contracting sales.

While Tempe's single largest revenue source is highly responsive to changes in economic activity (i.e., elastic), the diverse and healthy nature of the City's economy has provided for steady annual increases even during a national economic downturn.

#### ■ **Intergovernmental Revenue**

Revenues in this category are derived from three sources of state-levied revenue sharing: the state sales tax, the state income tax, and vehicle license taxes. Intergovernmental revenues represent \$38.3 million or 28.5% of the total FY 2000-01 General Fund revenue.

The primary allocation basis for state revenue sharing is each city or town's relative share of the state's population of all incorporated cities and towns. Municipalities may choose population counts from either the 1990 Census, a Special Census, or 1995 population estimates prepared by the state Department of Economic Security. Tempe's allocations are based on a 1995 Special Census.

#### *State sales tax*

Estimated FY 2000-01 state sales tax distributions total \$14.4 million. Tempe's allocation is based on its share of total statewide incorporated population (currently 4.5%). The size

of the overall pool of funding available for distribution is based on state statute.

#### *State income tax*

Total estimated state-shared income tax revenues to be distributed to Arizona cities and towns in FY 2000-01 is \$421.9 million, with Tempe receiving \$17.9 million. Pursuant to state statute, cities and towns receive 15% of the state's total income tax collections.

#### *Vehicle license tax*

The remaining \$5.9 million of state-shared revenues derive from vehicle license taxes. Approximately twenty-two percent of the revenues collected for the licensing of motor vehicles is distributed to incorporated cities and towns. (Forty percent of the total revenues from this source are distributed to the highway user revenue fund and four percent to the state highway fund.) While license fees are distributed by the county, this is actually a State revenue source. The City of Tempe receives its share of the vehicle license tax collections based on its population in relation to the total incorporated population of the county.

The estimated FY 2000-01 distribution to Tempe represents only a slight increase from the prior year, due primarily to the expected recovery of overpayments made by Maricopa County over a three year period from 1992 until 1995. Vehicle license tax payments to Tempe will be reduced by \$219,000 per year for three years to fully recover the county's overpayments.

### ■ Charges for Services

Charges for services account for \$7.0 million or 5.2% of General Fund revenues in FY 2000-01, with \$3.9 million of the total from recreation and social services programs. By Council policy, certain recreation and social service programs operate on a full or partial cost recovery basis. Other Charges for Services revenues derive from development-related charges for building and trade permits, planning and zoning fees, and engineering fees.

### ■ Property Tax

Tempe's property tax rate for FY 2000-01 is \$1.35 per \$100 of assessed valuation, consisting of a primary tax rate of \$0.54 per \$100 of assessed valuation and a secondary tax rate of \$0.81 per \$100 of assessed valuation. Only the primary levy goes to the General Fund. While there is no restriction on its usage, the primary levy is limited by state law to a 2% annual increase plus any amount generated by new construction. The primary levy for FY 2000-01 is estimated at \$6.5 million.

### ■ Fines and Forfeitures

Fines and forfeitures represent \$4.7 million of the FY 2000-01 General Fund revenue total. Traffic fines account for \$1.6 million or 33.3% of the total fines collected. Rounding out the fines and forfeiture revenue sources are defensive driving school fees, parking fines, and criminal fines, along with delinquent collections and default fees.

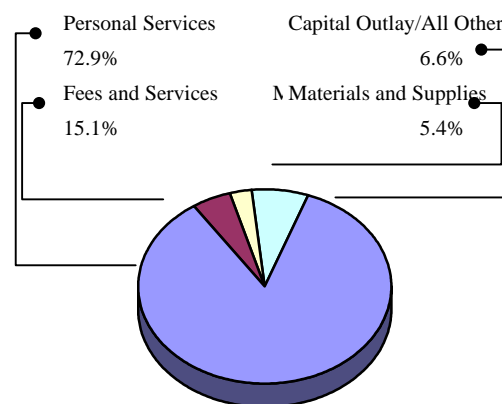
### ■ All Other

Other General Fund revenue sources include Interest Income (\$6.0 million), Transient Lodging (Hotel/Motel Bed) Tax (\$1.7 million), Franchise Fees (\$1.1 million), Licenses and Permits

(\$970,700), the Salt River Project Payment In-Lieu of Property Taxes (\$425,200) and other miscellaneous revenue (\$1.3 million).

### Expenditure Structure

FY 2000-01 General Fund appropriations are distributed as follows: Personal Services (72.9%), Fees and Services (15.1%), Materials and Supplies (5.4%), Capital Outlay/All Other (6.6%).



The General Fund consists of all City operations with the exception of Enterprise Fund operations (Water/Wastewater, Sanitation, and Golf), Transportation (LTAF and HURF), Transit, Rio Salado, Performing Arts, and Debt Service. Personal Services (salaries, wages and benefits) account for \$87.5 million or 72.9% of the \$120 million total FY 2000-01 General Fund operating budget (net of internal service credit). The remaining General Fund appropriation consists of \$18.2 million or 15.1% for Fees and Services, \$6.5 million or 5.4% for Materials and Supplies, and \$6.9 million or 6.6% for Capital Outlay/All Other.

### ■ **Personal Services**

Since most personnel and major functions of city government are located within the General Fund, it is not surprising that salaries and wages represent such a significant proportion of total expenditures. For FY 2000-01, Salary and wages account for \$70.1 million or 58.4% of the \$120 million in total General Fund appropriations. Personal Services will continue to represent the major portion of fund expenditures regardless of any policy changes over the next five years. Fringe benefits represent \$17.4 million or 14.5% of the total General Fund budget.

### ■ **Fees and Services**

This budget category comprises 15.1% of the total General Fund appropriations. The largest portion of this expense category is for contracted services, accounting for 26.4% of total Fees and Services. Contracted services make up an increasing share of Fees and Services costs due in part to the City's practice of contracting for services rather than adding personnel. Utilities (electricity, water, refuse, and sewer) comprise the second largest share (17.0%) of total Fees and Services. Unlike most of the Fees and Services accounts, utility expenses are expected to increase at a somewhat higher rate than inflation (CPI). Other major Fees and Services expenditures include software maintenance agreements (7.6%), equipment rental and repair (8.8%), telephone service (4.0%), and county jail costs (4.1%).

### ■ **Materials and Supplies**

Totaling \$6.5 million, expenditures for Materials and Supplies account for 5.4% of the total General Fund operating budget for FY 2000-01. 16.2% (\$1.0 million) of these

expenditures derive from motor vehicle parts, fuels, and lubricants. Fuel costs are expected to increase at intermittent levels higher than inflation. The remainder is for library bookstock, clothing allowances, general office supplies, minor equipment, and miscellaneous supplies. Most increases in Materials and Supplies over the next five years are expected to be driven largely by inflation.

### ■ **Capital Outlay/All Other**

Capital Outlay accounts for \$2.6 million or 2.2% of the total FY 2000-01 General Fund operating budget. Funding for replacement and new equipment (primarily automobiles and trucks) constitutes the largest portion (49.2%), with computer replacement making up 2.2% of total Capital Outlay. Other major Capital Outlay budgeted items include radios, turf equipment and office equipment. Within this category are budgeted amounts for contingencies, travel, contributions to community service organizations and the local convention and visitors bureau, and payment to the county for animal control.

## **Operating Revenues and Expenditures**

A strong and increasingly diversified local economy has contributed to continued growth in revenues, producing 6.1% average annual revenue growth over the past five years. However, we expect this level of growth to slow as the national and state economy enter a period of predicted slower growth.

General Fund expenditure growth over the past five years has averaged 6.9% annually. In addition to the cost of



inflation, spending has increased to address high priority areas such as public safety, recreation, and development services.

Operating surpluses have been utilized for "pay-as-you-go" financing in the Capital Improvements Program and financing Rio Salado. Current policy has 2/3 of operating surpluses going to the Capital Improvement Program and 1/3 to Rio Salado.

<b>FYE</b>	<b>Revenues (\$ Millions)</b>	<b>Expenditures (\$ Millions)</b>
90	\$59.5	\$55.3
91	60.9	59.2
92	62.0	60.7
93	64.5	62.1
94	75.6	70.8
95	94.4	70.8
96	99.9	78.2
97	104.5	82.3
98	114.3	82.0
99	118.3	91.8
00	126.6	98.6

#### **Trend/Forecast**

In the early 1990's the City experienced declining annual surpluses as expenditure growth exceeded revenue growth by as much as 5%-6% per year. In response to this situation, the City invoked three years of spending reductions to slow the rate of expenditure growth. The success of the expenditure reduction strategy alone was limited, however, because it coincided with a slow-down of the national and regional economy.

The outlook for the General Fund improved dramatically in 1993 with voter approval of an increase in the sales tax rate from 1.0% to 1.2%. The sales tax increase was projected to add \$5 to \$6 million each year and keep the General Fund fiscally sound. That expectation has been confirmed, while improvements in

retail sales and commercial development have also bolstered General Fund revenue.

Annual operating surpluses should decline, however, as revenue growth slows as a result of a predicted downturn in the economy over the next 2-3 years. In addition, our share of locally-distributed state income, sales and vehicle license tax revenues are projected to decline in FY 2001-02 as the 2000 Census shows Tempe's expected declining percentage of statewide population. Our forecast is for operating surpluses to decline such that an operating deficit within the forecast period appears in FY 2005-06. In the assumptions related to future revenue and expenditure growth, it appears that over the long-term, the current economic growth trend is not sustainable and thus leads to operating deficits within this forecast horizon.

An important caveat to our projections concerns the issue of state-shared revenues, which has come under attack in recent years and may in the future. Income and vehicle license tax reductions enacted at the state level in recent years have been mitigated in part by a strong state economy and population growth. In addition, the state has recently assumed significant responsibilities for funding the capital costs of local school districts and alternative fuel vehicles. Our concern as a local government is how the state will balance its budget when the



economy inevitably slows. Close monitoring of the Legislature's efforts to alter the distribution formulas for state-shared revenues or to enact laws that may narrow the local tax base will be required.

Policy choices made now regarding annual supplemental limits will have a significant impact on the long-term condition of the General Fund. The forecast assumes that new, recurring funding will be limited to \$750,000 for FY 2001-02 and will decline to \$500,000 in FY 2005-06. The operating budget impact of capital projects are estimated to average \$750,000 in FY 2001-02 and will also decline to \$500,000 in FY 2005-06.

#### **Designated Reserves**

The General Fund's designated reserves are approved funds set aside for an intended use. These reserves are essential to maintaining the long-term financial health of the City. For the fiscal year ended June 30, 2000, these reserves and their intended uses are as follows:

- \$9,384,204 Self-insurance for material, unanticipated claims against the City;
- \$1,192,909 Health Fund for health self-insurance claims;
- \$8,000,000 Rainy Day Fund;
- \$4,953,361 Capital Projects for future projects;
- \$46,800 West Tempe for improvements;
- \$10,000,000 Rio Salado projects;
- \$1,500,000 Commercial enhancements re-use district;
- \$500,000 Arbitrage rebate for future payments;
- \$2,000,000 Powerline undergrounding for potential future payment to Arizona Public Service; and

- \$4,000,000 Carryforward appropriations.

#### **Fund Balance**

The General Fund's unreserved fund balance has grown from \$23.2 million just six years ago to \$38.6 million for FYE 2000. Over the next several years, we anticipate some drawdown of fund balances primarily for "pay-as-you-go" capital financing, bringing the General Fund balances in line with the financial policy of 25% of General Fund revenues.

FYE	Unreserved Fund Balance
89	\$9,594,351
90	9,110,464
91	10,463,789
92	10,765,333
93	10,143,466
94	14,121,709
95	23,196,449
96	28,590,826
97	30,639,891
98	34,682,895
99	38,201,087
00	38,615,537

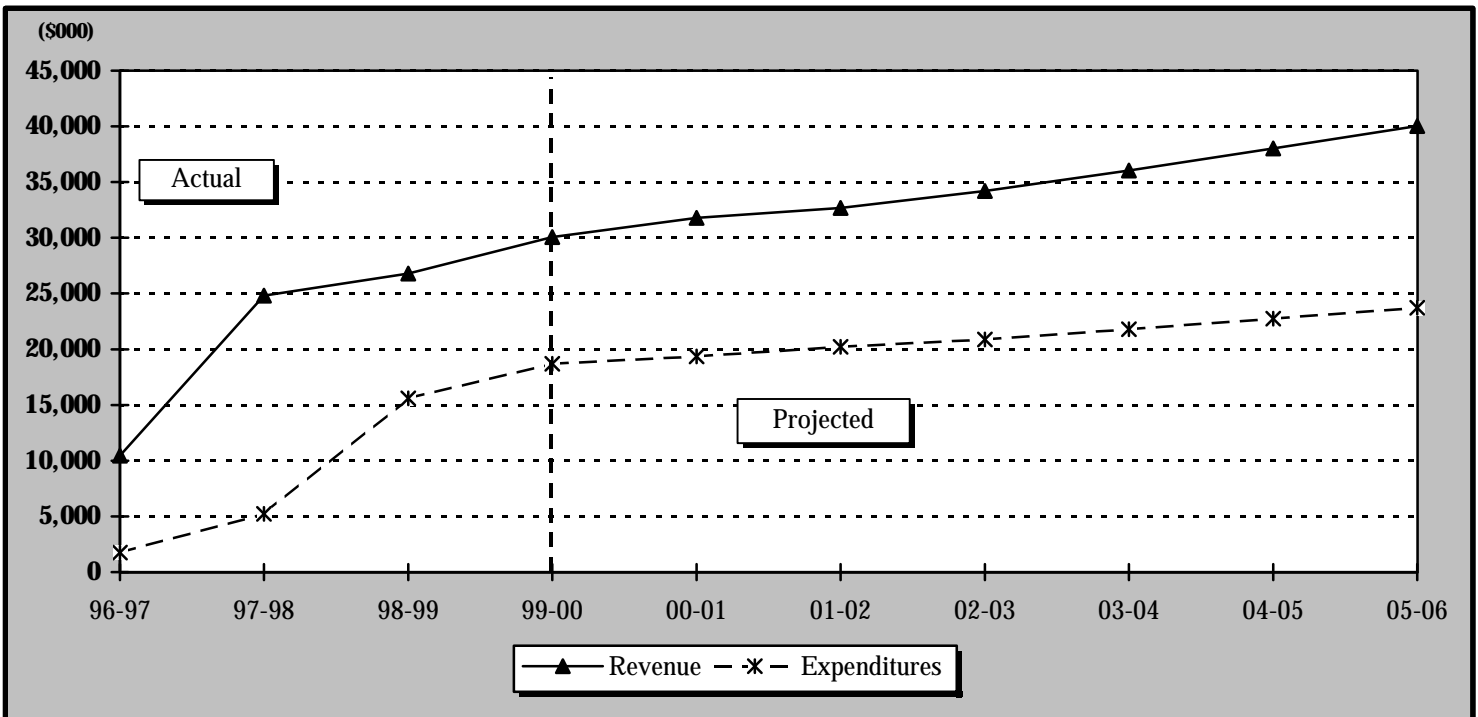
**City of Tempe  
Forecast Model  
General Fund Revenue**

	<b>FY 00/01 Revised</b>	<b>FY 01/02 Projected</b>	<b>FY 02/03 Projected</b>	<b>FY 03/04 Projected</b>	<b>FY 04/05 Projected</b>	<b>FY 05/06 Projected</b>
<b>Local Taxes</b>						
City Sales Tax	65,700,000	69,275,500	72,380,300	75,547,000	78,610,400	81,630,300
Primary Property Tax	6,527,831	6,919,500	7,196,300	7,466,200	7,727,500	7,998,000
Transient Lodging Tax	1,713,000	1,884,300	2,072,700	2,280,000	2,508,000	2,758,800
<i>Total Local Taxes</i>	73,940,831	78,079,300	81,649,300	85,293,200	88,845,900	92,387,100
<b>Intergovernmental Revenue</b>						
State Income Tax	17,950,528	16,542,100	17,747,400	18,624,100	19,470,400	20,278,000
State Sales Tax	14,400,000	12,676,900	13,386,800	14,082,900	14,758,900	15,423,100
Vehicle License Tax	5,900,000	5,900,000	5,959,000	6,018,600	6,078,800	6,139,600
<i>Total Intergovernmental</i>	38,250,528	35,119,000	37,093,200	38,725,600	40,308,100	41,840,700
<b>Building &amp; Trades/Planning &amp; Zoning</b>						
Building Permit Fees	1,395,000	1,337,800	1,284,300	1,236,800	1,194,700	1,156,500
Plan Check Fees	590,000	565,800	543,200	523,100	505,300	489,100
Electrical Permit Fees	241,000	231,100	221,900	213,700	206,400	199,800
Planning & Zoning Fees	429,200	411,600	395,100	380,500	367,600	355,800
Other Bldg & Trades Fees	486,681	466,700	448,000	431,400	416,700	403,400
<i>Total Bldg &amp; Trds/Plan &amp; Zoning</i>	3,141,881	3,013,000	2,892,500	2,785,500	2,690,700	2,604,600
<b>Cultural and Recreational</b>						
Registration Fees	2,844,369	2,874,800	2,903,800	2,933,000	2,962,500	2,992,300
Recreation Admission Charges	339,269	342,900	346,400	349,900	353,400	357,000
Library Fines and Fees	378,400	382,400	386,300	390,200	394,100	398,100
Other Cultural and Rec Fees	290,257	293,400	296,400	299,400	302,400	305,400
<i>Total Cultural and Recreational</i>	3,852,295	3,893,500	3,932,900	3,972,500	4,012,400	4,052,800
<b>Court Fines, Fees and Forfeitures</b>						
Traffic Fines	1,558,000	1,574,700	1,590,600	1,606,600	1,622,800	1,639,100
Criminal Fines	787,500	795,900	803,900	812,000	820,200	828,500
Parking Fines	202,400	204,600	206,700	208,800	210,900	213,000
Other Fines, Fees and Forfeitures	2,135,122	2,158,000	2,179,800	2,201,800	2,224,000	2,246,400
<i>Total Fines, Fees and Forfeitures</i>	4,683,022	4,733,200	4,781,000	4,829,200	4,877,900	4,927,000
<i>Business/Non-Business Licenses</i>	970,695	970,700	970,700	970,700	970,700	970,700
<b>Other Revenue Sources</b>						
Franchise Fees	1,136,159	1,209,100	1,273,000	1,338,700	1,402,700	1,466,200
SRP Payment in Lieu of Taxes	425,200	425,200	425,200	425,200	425,200	425,200
Interest Income	6,000,000	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000
Loan Repayment	295,906	137,482	137,482	137,482	137,482	137,482
Other Miscellaneous Revenue	1,316,577	1,690,000	1,690,000	1,690,000	1,690,000	1,690,000
<i>Total Other Revenue</i>	9,173,842	8,961,782	9,025,682	9,091,382	9,155,382	9,218,882
<b>Total General Fund Revenue</b>	<b>134,013,094</b>	<b>134,770,482</b>	<b>140,345,282</b>	<b>145,668,082</b>	<b>150,861,082</b>	<b>156,001,782</b>

Last Update: 2001

[illegible]

# Transit Fund: Projected Revenue and Expenditures



	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06
	Actual	Actual	Actual	Actual	Revised	Projected	Projected	Projected	Projected	Projected
<b>Revenue (\$000)</b>										
Transit Tax	10,429	23,212	24,542	26,384	28,610	29,926	31,272	32,586	33,889	35,245
Lottery Transfer In	0	340	334	325	305	302	298	294	290	286
ASU-Flash Transit	0	316	532	1,407	279	279	279	279	279	279
Interest Income	0	931	1,375	1,936	2,300	1,780	1,850	2,260	2,810	3,350
Miscellaneous Revenue	11	1	4	23	290	397	509	626	748	877
<b>Total Revenue</b>	<b>10,440</b>	<b>24,800</b>	<b>26,787</b>	<b>30,076</b>	<b>31,784</b>	<b>32,683</b>	<b>34,208</b>	<b>36,044</b>	<b>38,016</b>	<b>40,037</b>
<b>Expenditures (\$000)</b>										
Personal Services	133	512	807	1,110	1,262	1,326	1,413	1,506	1,612	1,724
Materials and Supplies	12	99	60	29	21	22	22	23	24	25
Fees and Services	1,580	3,926	7,563	11,927	14,645	17,731	18,224	18,996	19,757	20,548
Travel and Training	7	23	28	53	41	28	30	30	30	30
Capital Outlay	13	95	61	170	5	50	52	54	56	58
Debt Service	0	73	6,837	4,748	2,351	0	0	0	0	0
Internal Service Chgs/Adjustments	3	15	23	494	860	909	962	1,018	1,077	1,141
Indirect Cost Allocations	0	484	213	154	157	163	170	176	183	190
<b>Total Expenditures</b>	<b>1,749</b>	<b>5,228</b>	<b>15,592</b>	<b>18,685</b>	<b>19,343</b>	<b>20,229</b>	<b>20,872</b>	<b>21,803</b>	<b>22,739</b>	<b>23,717</b>
Designated for Capital Projects	101	9,680	2,975	9,272	12,441	12,454	13,335	14,241	15,277	16,319
<b>Net Operating Surplus/(Deficit)</b>	<b>8,590</b>	<b>9,892</b>	<b>8,220</b>	<b>2,119</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Note: Actuals reflect budget basis figures represented in the Comprehensive Annual Financial Report.

## Transit Fund

### Fund Structure

#### Description

The Transit Fund is a Special Revenue fund established to account for the receipt and expenditure of the City's transit tax and the one-third commitment of Lottery proceeds for mass transit.

#### Major Services

This fund provides for:

- Planning and Design
- Operations
- Procurement
- Transit Community Outreach and Marketing

#### Revenue Structure

Transit Fund revenues come primarily from a .5% City's sales tax to fund transit improvements and a one-third commitment of state Lottery proceeds for mass transit.

##### ■ Transit Tax

On September 10, 1996, the citizens of Tempe approved a .5% increase in the City's sales tax to fund transit improvements. For FY 2000-01, the transit tax is expected to generate \$28.6 million in revenue, or 90.0% of total Transit Fund revenues.

##### ■ Lottery Proceeds

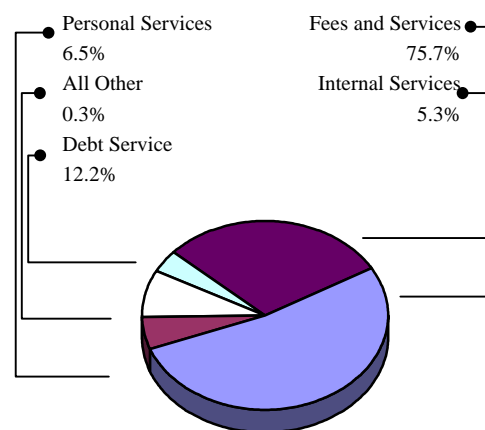
Per state statute (Arizona Revised Statutes §28-2502 (F)), a municipality with a population of 60,000 or more persons is required to spend one-third of its local transportation monies for public transportation each fiscal year. Total Lottery proceeds are expected to be \$925,500 in FY 2000-01, which represents a slight decrease from the

prior year, a trend that is likely to continue as Tempe's population growth rate remains below those of other cities. The downturn in total Lottery proceeds translates into a gradual decline in the one-third commitment of Lottery monies available for public transportation. This year's commitment is estimated at \$305,400.

### Expenditure Structure

The Transit Fund includes all personnel in Transit Administration, Planning and Operations.

Major expenditures in the Transit Fund include: Fees and Services (75.7%); Debt Service (12.2%), Personal Services (6.5%); Internal services (5.3%), and All Other (0.3%).



##### ■ Fees and Services

The largest expenditure in the Transit Fund is for Fees and Services, specifically funding for local and City of Phoenix transit routes and Dial-A-Ride services. In FY 2000-01, Fees and Services are estimated to account for \$14.6 million or 75.7% of the Transit

Fund operating budget. As a result of passage of the transit tax, this area is expected to increase to \$20.5 million by FY 2005-06.

#### ■ **Debt Service**

Debt service costs reflect the payment of principal and interest on bonds issued to finance the purchase of buses, the construction of bus pullouts and bus shelters, and other transit-related capital improvements. For FY 2000-01, Transit Fund debt service totals \$2.4 million.

#### ■ **Personal Services**

Personal Services account for 6.5% of the total FY 2000-01 budget, or \$1,261,927.

#### ■ **Internal Services**

Indirect cost allocations to the Transit Fund account for 5.3% or \$1,017,598 of the FY 2000-01 budget. This amount represents the Transit Fund's share of certain administrative costs funded by the General Fund.

#### ■ **Capital Projects**

Although not a part of the operating budget shown in this forecast directly, funding for capital projects constitutes a significant portion of the total financial program in Transit. Each year's operating surplus forecast will be applied towards new and replacement buses, related capital projects, and light rail.

expenditure estimates relies upon the 10-Year Transit Business Plan and the assumptions made in that plan regarding the expansion of routes and the acquisition of new buses. The forecast is for planned fund surpluses in the early years due primarily to the implementation time required to expand routes. However, expenditures are expected to increase as the plan is more fully implemented. In FY 1997-98, the first full year of the transit tax, operating expenses were \$5.2 million. By the end of the forecast period, expenses are estimated to climb to \$23.7 million.

FYE	Unreserved Fund Balance
97	8,552,661
98	18,450,631
99	26,673,832
00	28,793,058

#### ■ **Contingency**

The contingency account represents 2.8% or \$449,232 of the FY 1999-00 operating budget. This funding (2% of estimated Transit Fund revenue) has been set aside for vehicle replacement and unanticipated expenses.

### **Trend/Forecast**

Since the transit tax is a component of the overall City sales tax, the growth trend projected in General Fund sales tax revenue is mirrored in the Transit Fund. Revenue growth is projected to slow in the later years of the forecast as the economy enters a mild downturn.

The pattern of growth reflected in the

**City of Tempe  
Forecast Model  
Transit Fund**

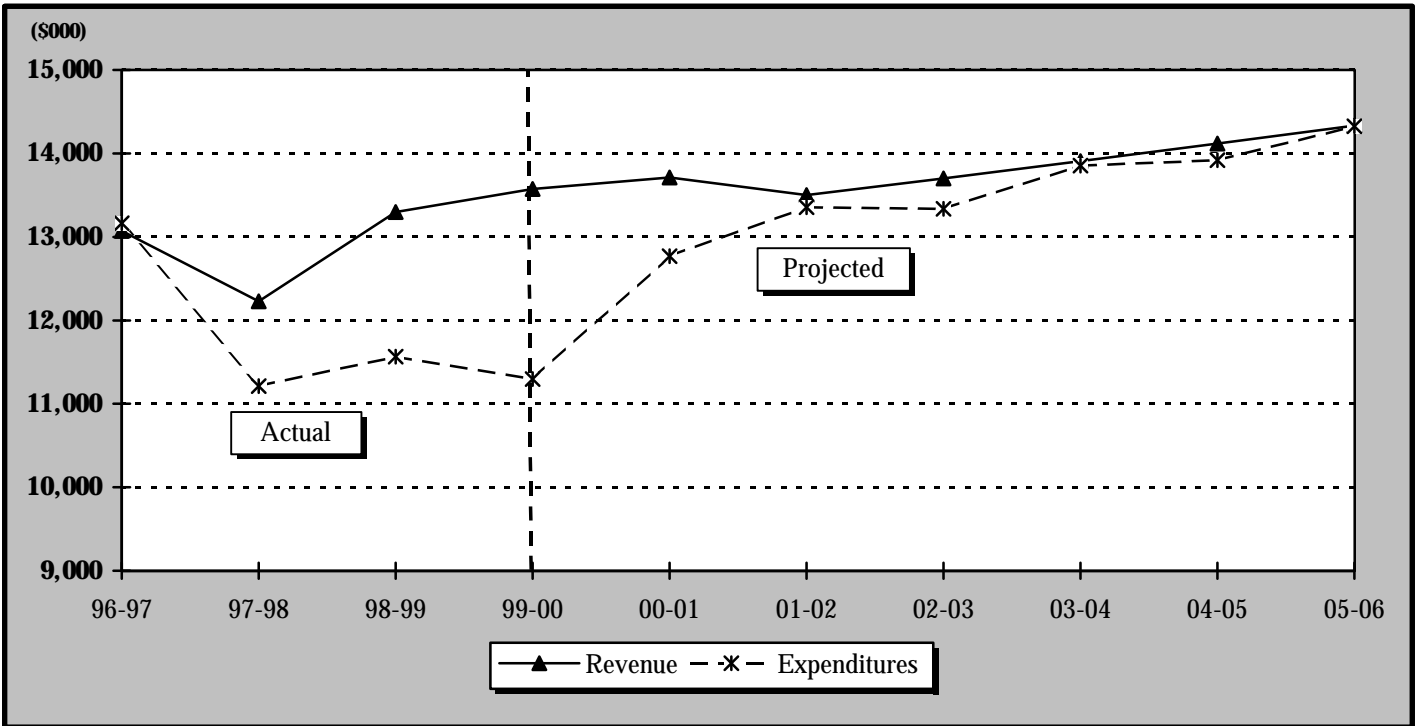
	<b>FY 00/01 Revised</b>	<b>FY 01/02 Projected</b>	<b>FY 02/03 Projected</b>	<b>FY 03/04 Projected</b>	<b>FY 04/05 Projected</b>	<b>FY 05/06 Projected</b>
<b><u>Revenue</u></b>						
Transit Tax	28,609,508	29,925,500	31,272,100	32,585,500	33,888,900	35,244,500
Lottery Transfer In	305,400	301,500	297,500	293,700	289,800	286,100
ASU-Flash Transit	279,000	279,000	279,000	279,000	279,000	279,000
Interest Income	2,300,000	1,780,000	1,850,000	2,260,000	2,810,000	3,350,000
Miscellaneous Revenue	289,882	397,000	509,000	626,100	748,400	876,900
<b>Total Revenue</b>	<b>31,783,790</b>	<b>32,683,000</b>	<b>34,207,600</b>	<b>36,044,300</b>	<b>38,016,100</b>	<b>40,036,500</b>
<b><u>Expenditures</u></b>						
Salaries and Wages	1,026,376	1,088,000	1,153,300	1,222,500	1,295,900	1,373,700
Fringe Benefits						
FICA	78,582	83,200	88,200	93,500	99,100	105,100
Retirement-ASRS	30,918	28,900	30,700	32,500	34,500	36,500
Health Insurance	113,341	113,000	127,300	144,100	168,000	194,500
Mediflex Reimbursed Expense	3,510	3,500	3,500	3,500	3,500	3,500
Other Fringe Benefits	9,200	9,500	9,900	10,300	10,700	11,100
<i>Total Fringe Benefits</i>	235,551	238,100	259,600	283,900	315,800	350,700
<i>Total Personal Services</i>	1,261,927	1,326,100	1,412,900	1,506,400	1,611,700	1,724,400
Materials and Supplies	20,835	21,600	22,400	23,300	24,200	25,200
Fees and Services						
Fixed Route Service	10,291,000	11,199,000	11,604,000	12,112,000	12,597,000	13,102,000
Dial-A-Ride	846,000	880,000	915,000	952,000	990,000	1,030,000
Marketing	653,000	453,000	471,000	490,000	510,000	530,000
FLASH/Local Circulator Service	2,450,000	4,336,000	4,336,000	4,508,000	4,689,000	4,876,000
Other Fees and Services	404,826	863,000	898,000	934,000	971,000	1,010,000
<i>Total Fees and Services</i>	14,644,826	17,731,000	18,224,000	18,996,000	19,757,000	20,548,000
Travel and Training	40,900	28,000	30,000	30,000	30,000	30,000
Capital Outlay	5,250	50,000	51,900	53,898	56,000	58,212
Debt Service	2,351,250	0	0	0	0	0
Internal Service Charges/Adjustments	860,411	909,420	961,700	1,017,538	1,077,139	1,140,806
Indirect Cost Allocations	157,187	163,200	169,500	176,100	183,100	190,400
<b>Total Expenditures</b>	<b>19,342,586</b>	<b>20,229,320</b>	<b>20,872,400</b>	<b>21,803,236</b>	<b>22,739,139</b>	<b>23,717,018</b>
Designated for Capital Projects	8,557,860	8,697,110	5,965,060	4,283,410	3,075,845	2,208,713
<b>Net Operating Surplus/(Deficit)</b>	<b>3,883,344</b>	<b>3,756,570</b>	<b>7,370,141</b>	<b>9,957,654</b>	<b>12,201,116</b>	<b>14,110,769</b>

Note: No Light-Rail operating impacts until FY 06/07

Last Update: 2001



# Transportation Funds: Projected Revenue and Expenditures



	96/97 Actual	97/98 Actual	98/99 Actual	99/00 Actual	00/01 Revised	01/02 Projected	02/03 Projected	03/04 Projected	04/05 Projected	05/06 Projected
<b>Revenue (\$000)</b>										
Highway User Revenue Tax	9,810	9,684	10,781	11,074	11,240	11,038	11,248	11,462	11,680	11,901
State Lottery Proceeds	1,144	1,020	1,001	976	926	914	902	890	878	867
ASU-Flash Transit	243	0	0	0	0	0	0	0	0	0
Maintenance of Effort Transfer	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850
Lottery Transfer to Transit	0	(340)	(334)	(325)	(305)	(302)	(298)	(294)	(290)	(286)
Other Revenue	23	14	0	0	0	0	0	0	0	0
<b>Total Revenue</b>	<b>13,070</b>	<b>12,228</b>	<b>13,299</b>	<b>13,575</b>	<b>13,710</b>	<b>13,500</b>	<b>13,702</b>	<b>13,908</b>	<b>14,118</b>	<b>14,332</b>
<b>Expenditures (\$000)</b>										
Personal Services	2,850	2,903	3,001	3,141	3,447	3,601	3,836	4,091	4,378	4,686
Materials and Supplies	551	509	446	523	557	579	601	624	649	675
Fees and Services	1,611	1,455	1,324	1,434	1,640	1,714	1,791	1,873	1,960	2,054
Capital Outlay	291	351	369	254	546	567	589	612	636	661
Debt Service	4,726	4,534	4,603	4,000	4,300	4,500	4,000	4,000	3,500	3,300
Transit Routes/Dial-A-Ride	1,377	0	0	0	0	0	0	0	0	0
Loan Repayment	356	356	356	356	356	356	356	356	356	356
Internal Service Charges	460	473	532	609	815	846	878	913	949	987
Indirect Cost Allocations	940	630	935	978	1,108	1,194	1,287	1,386	1,493	1,608
<b>Total Expenditures</b>	<b>13,162</b>	<b>11,211</b>	<b>11,565</b>	<b>11,295</b>	<b>12,770</b>	<b>13,356</b>	<b>13,338</b>	<b>13,855</b>	<b>13,920</b>	<b>14,326</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>(93)</b>	<b>1,017</b>	<b>1,734</b>	<b>2,280</b>	<b>940</b>	<b>145</b>	<b>364</b>	<b>53</b>	<b>198</b>	<b>6</b>

Note: Actuals reflect budget basis figures represented in the Comprehensive Annual Financial Report.

## Transportation Funds

### Fund Structure

#### Description

The Highway User Revenue Fund (HURF) and the Local Transportation Assistance Fund (LTAF) are Special Revenue funds that comprise the City's Transportation funds. They have been established to account for the receipt and expenditure of Tempe's allocation of state-shared Highway User taxes and state Lottery funds.

#### Major Services

- Studies and Design
- Operations
- Traffic Lights and Signal System
- Street and Field Maintenance
- Planning

### Revenue Structure

Transportation revenues are derived primarily (82.0%) from state-shared Highway User taxes. State Lottery proceeds account for 6.8% of Transportation revenues, while a transfer of General Fund monies required by state law (Maintenance of Effort) comprises the balance of Transportation funding.

#### ■ Highway User Tax

Highway User revenues come primarily (55%) from the fuel tax (currently \$0.18 per gallon), with the remainder from motor carrier fees (16%), vehicle license taxes (14%), vehicle registration fees (11%), and other transportation-related fees (4%). Estimates for FY 2000-01 indicate that the total pool of HURF revenues to be shared by cities will be \$281.0 million, with Tempe's share at \$11.2 million.

This funding source can be irregular as was case in FY 1991-92 when nearly \$12

million from the total pool of state hared highway user revenues, which would have otherwise been distributed, was shifted to fund state highway patrol operations. In short, HURF revenues are subject to state policy changes, fuel sales, and population growth, all factors beyond the City's control.

Pursuant to state statute, HURF monies can be used only for street and highway purposes, including right-of-way acquisition, construction, reconstruction, maintenance in the public right-of-way, and payment of debt service on highway and street bonds. HURF funds may not be used for transit programs. The outlook for HURF revenues is for gradually declining distributions to Tempe as our relative percentage of total statewide population falls.

#### ■ Lottery Proceeds

Lottery proceeds (Local Transportation Assistance Fund or LTAF), including Powerball revenue, are expected to be \$925,500 in FY 2000-01, which represents a slight decrease from the prior year, a trend that is likely to continue as long as Tempe's population growth remains below other cities. The distribution of Lottery funds is based on population, with all cities and towns receiving at least \$10,000. A \$20.5 million minimum total distribution pool is guaranteed to cities and towns. State law limits the distribution pool to a maximum of \$23 million.

Cities benefit from Powerball revenues only after a minimum amount of receipts are first collected by the state. Pursuant to state law, after the state Lottery director determines that deposits to the state general fund from all Lottery revenues have reached \$21 million, a

maximum of \$18 million is to be paid to the LTAF from Powerball revenues for distribution to cities, towns and counties. The \$18 million statewide pool is divided into county pools based on each county's market share of Lottery ticket sales. Actual distributions to cities and towns are based on their share of the incorporated population within the county.

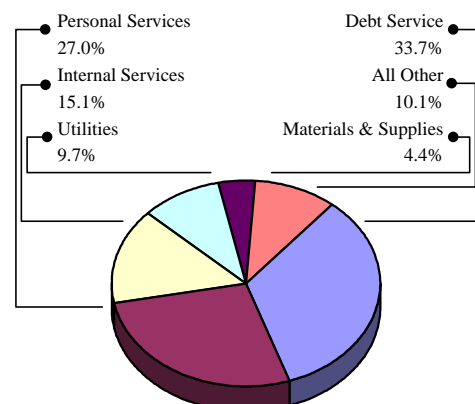
Generally, LTAF proceeds can be used only for street and highway projects such as construction or reconstruction in the public right-of-way. However, for cities in counties with populations of 1,200,000 persons or more, one-third of Lottery revenues must be allocated to public transit (A.R.S. §28-2502 (F)). Thus, the forecast reflects the transfer of funds from Transportation funds to the Transit Fund.

#### ■ Maintenance of Effort

In addition to state-shared revenue sources, Transportation derives its remaining revenues from a "Maintenance of Effort" transfer from the General Fund. This transfer of locally-generated funding fulfills the statutory requirement placed on Arizona cities to maintain the expenditure of local revenue for streets at a level computed as an average of local funds expended for any four of the fiscal years 1981-82 through 1985-86. That obligation is calculated at \$1,850,000.

#### Expenditure Structure

Transportation funds include all personnel in Streets, Traffic Lights and Signals (Street/Field Maintenance). Major budgeted expenditures for the Transportation funds include: Debt Service (33.7%) Personal Services (27.0%), Internal Services (15.1%), Utilities (9.7%), Materials and Supplies (4.4%), and All Other (10.1%).



#### ■ Debt Service

The largest FY 2000-01 budgeted expenditure in the Transportation funds is for Debt Service, which amounts to \$4.3 million, plus \$356,175 for a loan repayment to the Water/Wastewater fund, or 37% of the \$12.8 million total budgeted expenditures. Debt Service will continue to be a major expenditure in this fund for the next five years, ranging from 23% to 37% of total fund expenditures. Unfortunately, one important downside to the large Debt Service is that it reduces the capital improvement capacity for transportation pay-as-you-go financing which would normally be funded by any net surpluses in this fund.

#### ■ Personal Services

Personal Services account for 27.0% or \$3.4 million of the total FY 2000-01 Transportation budget and will likely continue in that range for the next few years. By FY 2005-06, Personal Services costs are expected to exceed \$4.6 million or 32.7% of a total budget near \$14.3 million.

#### ■ Internal Services and Utilities

Additional expenditure demands in the Transportation funds are for Internal Services and Utilities.

Internal Services costs (communications, information systems and vehicle maintenance) represent 15.1% or \$1.9 million of the FY 2000-01 budget. Utility costs (electricity for street lights and traffic signals) account for another 9.7% or \$1.2 million. The remaining expenditures are for Capital Outlay, Materials and Supplies and Contracted Services. These costs will be driven largely by inflation over the next five years.

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### **Summary**

Expenditures for Transportation increased from \$11.2 million in FY 1999-00 to an estimated \$12.7 million in FY 2000-01. As in FY 1999-00, the FY 2000-01 adopted budget does not include any appropriation of LTAF funding in the Transportation Fund. Rather, the amount of LTAF funding not transferred to the Transit Fund will be allowed to accumulate in the fund for future uses.

Total FY 2000-01 Transportation revenues are projected at \$13.7 million, a 0.1% increase from actual FY 1999-00 revenues. Although we are estimating some growth in revenue, that growth will be minimal at best. With population being the primary determinant for the distribution of state-shared HURF and Lottery revenues, Tempe's slower population growth relative to other cities will result in a diminishing share of these revenues for Tempe.

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### **Trend/Forecast**

Small surpluses are expected through the forecast period, although unforeseen circumstances could easily push this fund into a deficit condition. We have already witnessed a reduction in our allocations of HURF and Lottery revenues resulting from Tempe's declining percentage of

statewide population. We expect that the results of the 2000 census will further worsen the situation, contributing to the problems we are forecasting for this fund. With only small surpluses projected over the period of the forecast, limited resources will be available to address transportation capital project needs.

One approach now in place to minimize operating deficits is to limit debt service payments to established caps (\$4.5 million in FY 2001-02, down to \$3.3 million by FY 2005-06). Any excess General Obligation debt service requirements beyond this cap will be absorbed by the Debt Service Fund. Over the longer term, we will need to monitor the level of General Obligation tax-supported debt applied to Transportation projects and the resulting impact on the Debt Service Fund, being aware that opportunities for pay-as-you-go financing of capital projects will be limited.

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### **Fund Balance**

Transportation Fund balances have recovered somewhat from the lows experienced a few years ago. Maintaining an adequate fund balance for contingencies and transfers for capital projects will become a difficult challenge with little or no revenue growth. No relief on the expenditure side can be found as the cost of inflation and debt service requirements appear to

be factors that will be with us throughout the forecast period.

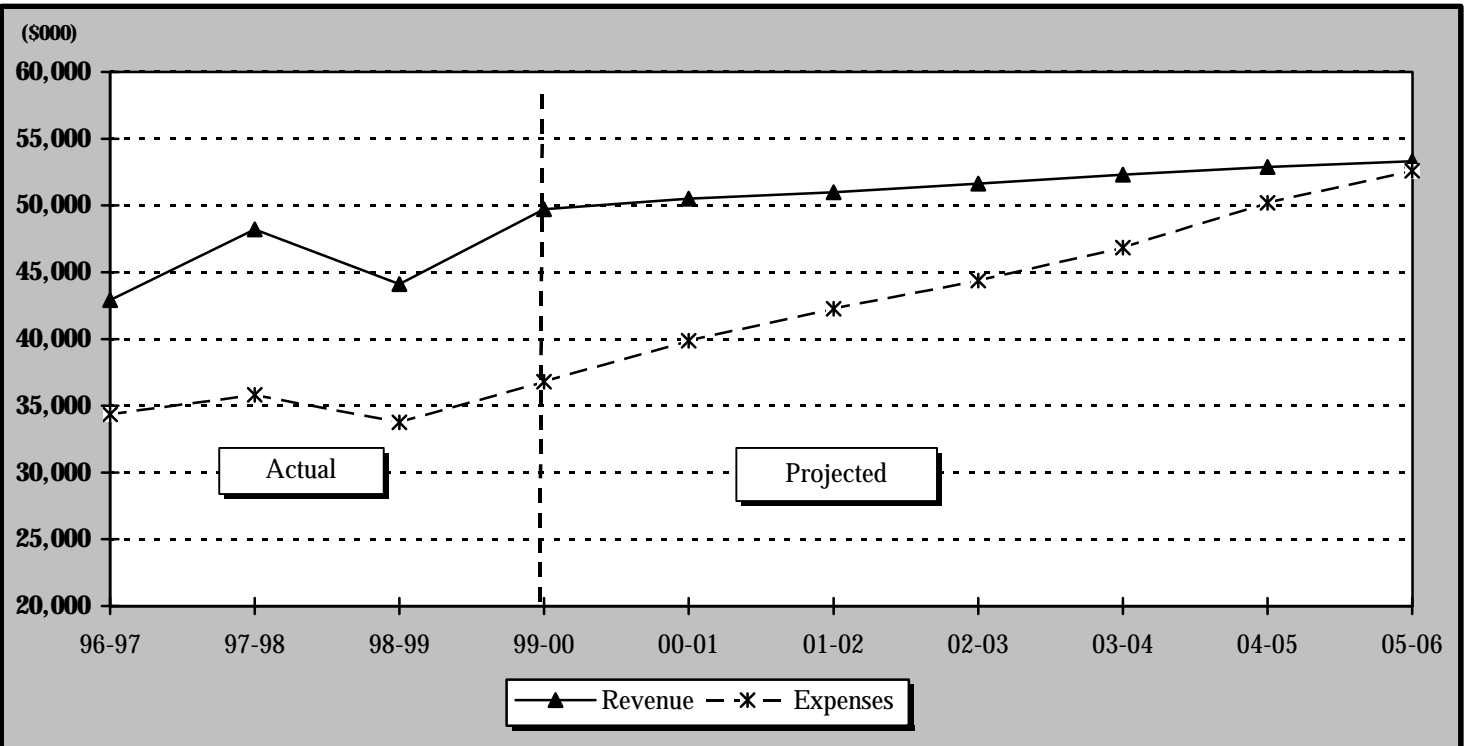
<b>FYE</b>	<b>Unreserved Fund Balance</b>
90	1,468,390
91	1,998,713
92	1,235,139
93	1,002,647
94	2,127,532
95	3,686,673
96	3,300,576
97	3,326,715
98	4,092,879
99	5,792,212
00	7,592,808

**City of Tempe  
Forecast Model  
Transportation Funds**

	<b>FY 00/01 Revised</b>	<b>FY 01/02 Projected</b>	<b>FY 02/03 Projected</b>	<b>FY 03/04 Projected</b>	<b>FY 04/05 Projected</b>	<b>FY 05/06 Projected</b>
<b><u>Revenue</u></b>						
Intergovernmental Revenue						
Highway User Revenue Tax	11,240,100	11,038,244	11,248,000	11,461,700	11,679,500	11,901,400
State Lottery Proceeds	925,500	913,500	901,600	889,900	878,300	866,900
ASU-Flash Transit	0	0	0	0	0	0
<i>Total Intergovernmental Revenue</i>	12,165,600	11,951,744	12,149,600	12,351,600	12,557,800	12,768,300
Maintenance of Effort Transfer	1,850,000	1,850,000	1,850,000	1,850,000	1,850,000	1,850,000
Lottery Transfer to Transit	(305,400)	(301,500)	(297,500)	(293,700)	(289,800)	(286,100)
Other Revenue	0	0	0	0	0	0
<b>Total Revenue</b>	<b>13,710,200</b>	<b>13,500,244</b>	<b>13,702,100</b>	<b>13,907,900</b>	<b>14,118,000</b>	<b>14,332,200</b>
<b><u>Expenditures</u></b>						
Salaries and Wages	2,754,493	2,919,800	3,095,000	3,280,700	3,477,500	3,686,200
Fringe Benefits						
FICA	207,409	223,400	236,800	251,000	266,000	282,000
Retirement-ASRS	74,602	77,700	82,300	87,300	92,500	98,100
Health Insurance	358,062	325,800	367,100	415,600	484,300	561,000
Mediflex Reimbursed Expense	35,555	35,900	36,300	36,700	37,100	37,500
Other Fringe Benefits	17,200	17,900	18,600	19,300	20,100	20,900
<i>Total Fringe Benefits</i>	692,828	680,700	741,100	809,900	900,000	999,500
<i>Total Personal Services</i>	3,447,321	3,600,500	3,836,100	4,090,600	4,377,500	4,685,700
Materials and Supplies						
Street Repair Materials	404,926	420,300	436,500	453,500	471,400	490,300
Other Materials and Supplies	152,565	158,400	164,500	170,900	177,700	184,800
<i>Total Materials and Supplies</i>	557,491	578,700	601,000	624,400	649,100	675,100
Fees and Services						
Electricity-Street Lights & Signals	1,239,526	1,297,800	1,359,400	1,424,700	1,493,800	1,568,500
Contracted Services	289,033	300,000	311,600	323,800	336,600	350,100
Other Fees and Services	111,437	115,700	120,200	124,900	129,800	135,000
<i>Total Fees and Services</i>	1,639,996	1,713,500	1,791,200	1,873,400	1,960,200	2,053,600
Capital Outlay	546,024	566,800	588,600	611,600	635,800	661,200
Debt Service	4,300,000	4,500,000	4,000,000	4,000,000	3,500,000	3,300,000
Loan Repayment	356,175	356,175	356,175	356,175	356,175	356,175
Internal Service Charges	814,866	845,800	878,400	912,700	948,800	986,800
Indirect Cost Allocations/Adjustments	1,108,163	1,194,097	1,286,525	1,385,911	1,492,863	1,607,893
<b>Total Expenditures</b>	<b>12,770,037</b>	<b>13,355,572</b>	<b>13,338,000</b>	<b>13,854,786</b>	<b>13,920,438</b>	<b>14,326,468</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>940,163</b>	<b>144,672</b>	<b>364,100</b>	<b>53,115</b>	<b>197,563</b>	<b>5,732</b>

Last Update: 2001

# Water/Wastewater Fund: Projected Revenue and Expenses



	96/97 Actual	97/98 Actual	98/99 Actual	99/00 Actual	00/01 Revised	01/02 Projected	02/03 Projected	03/04 Projected	04/05 Projected	05/06 Projected
<b>Revenue (\$000)</b>										
Charges for Service-Water	26,151	26,993	25,086	27,152	28,473	28,775	29,063	29,354	29,647	29,943
Charges for Service-Wastewater	13,744	16,955	15,021	17,519	17,587	17,775	17,955	18,135	18,318	18,502
Interest Income	1,990	2,697	2,912	3,727	3,300	3,300	3,490	3,670	3,770	3,720
Land and Facility Rental	498	490	490	495	500	490	490	490	490	490
Loan Repayment	413	397	380	624	624	624	624	624	624	624
Other Miscellaneous Revenue	116	665	210	213	24	24	24	25	25	25
<b>Total Revenue</b>	<b>42,913</b>	<b>48,198</b>	<b>44,098</b>	<b>49,729</b>	<b>50,508</b>	<b>50,988</b>	<b>51,646</b>	<b>52,297</b>	<b>52,874</b>	<b>53,305</b>
<b>Expenses (\$000)</b>										
Personal Services	7,024	7,031	7,332	7,623	8,402	8,665	9,234	9,847	10,540	11,283
Materials and Supplies	2,046	2,625	2,242	1,995	2,427	2,519	2,616	2,718	2,825	2,938
Fees and Services	9,153	9,063	7,714	7,890	9,834	10,276	10,750	11,238	11,704	12,197
Travel and Training	67	65	78	79	71	74	77	80	83	86
Depreciation Expense	7,960	8,021	8,143	8,605	9,294	10,037	10,840	11,708	12,644	13,656
Share of 91 <sup>st</sup> Avenue Depreciation	553	753	1,187	3,096	1,750	1,760	1,770	1,780	1,780	1,780
Debt Svc Intrst/Fiscal Agent Fees	3,909	3,835	3,751	3,831	4,052	4,636	4,508	4,605	5,276	4,989
Internal Service Charges	1,732	2,457	1,585	1,557	1,851	2,026	2,216	2,420	2,641	2,880
Indirect Cost Allocations	1,904	1,960	1,715	2,133	2,186	2,269	2,357	2,449	2,545	2,647
<b>Total Expenses</b>	<b>34,349</b>	<b>35,810</b>	<b>33,749</b>	<b>36,809</b>	<b>39,866</b>	<b>42,262</b>	<b>44,367</b>	<b>46,844</b>	<b>50,038</b>	<b>52,456</b>
Designated for Capital Projects	0	0	894	6,387	4,198	580	583	178	150	150
<b>Net Operating Surplus/(Deficit)</b>	<b>8,564</b>	<b>12,388</b>	<b>9,456</b>	<b>6,532</b>	<b>6,443</b>	<b>8,146</b>	<b>6,696</b>	<b>5,276</b>	<b>2,686</b>	<b>699</b>

Latest rate increase: 1) Water Service-10% increase affecting consumption rates implemented November 1992; 3% environmental fee added January 1994; 2) Sewer Service rates last increased November 1999, which included an average 2% increase for residential customers and new rate structure to reflect strength and volume for commercial and industrial customers. This forecast excludes the Capital Improvement Plan and future rate increases.

Note: Actuals reflect figures represented in the Comprehensive Annual Financial Report.



## Enterprise Funds

### Water/Wastewater Fund

## Fund Structure

### Description

The Water/Wastewater Fund is a self-supporting enterprise fund used to account for water and wastewater treatment operations, including debt service. It is financed and operated similarly to a private business and intended to recover costs through user charges. Revenues earned, expenses incurred, and/or net income is appropriated for Capital maintenance, public policy, management control, accountability, or other purposes. Other enterprise funds include the Sanitation and Golf Funds.

### Major Services

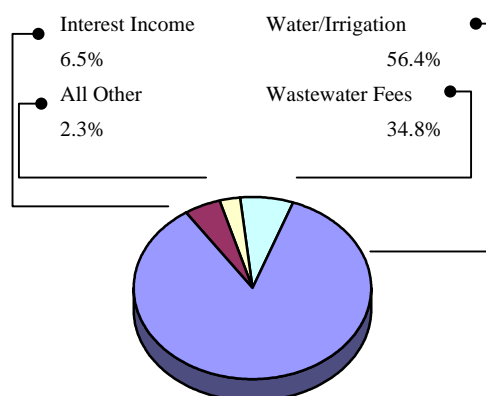
This budget provides for:

- Water/Wastewater Administration
- Water Resource Management
- Water Conservation
- Water Quality
- Transmission & Collection
- Technical Services
- Wastewater Reclamation
- Environmental Services
- Customer Services
- Irrigation
- Meter Reading

### Revenue Structure

User fees account for 91.2% or \$46.1 million of the \$50.5 million in total fund revenues in FY 2000-01.

Water/Wastewater revenues are derived from Water and Irrigation User Fees (56.4%), Wastewater User Fees (34.8%), Interest Income (6.5%), and All Other (2.3%).



#### ■ Water and Irrigation User Fees

Water and irrigation user (consumption) fees provide \$28.5 million or 56.4% of the total Water/Wastewater Fund revenue in FY 2000-01. This revenue amount reflects an estimated 43,000 accounts for drinking water and 925 irrigation per accounts.

#### ■ Wastewater User Fees

Over 37,000 Wastewater Service accounts are estimated to produce \$17.6 million or 34.8% of the total user fee revenues. Residential wastewater charges are largely driven by water consumption in that monthly billings are based upon a three month Winter average consumption.

#### ■ Interest Income/All Other

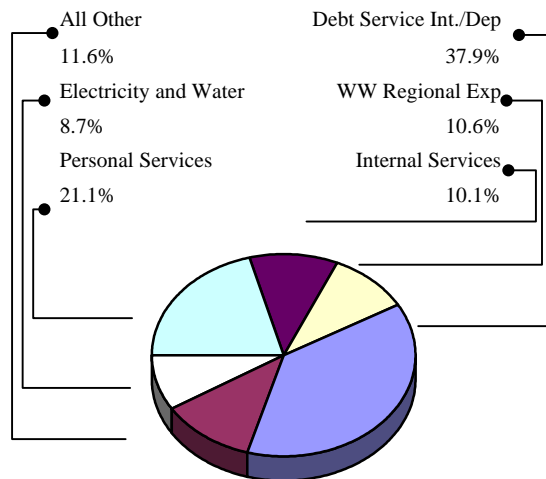
Cash balances in the Water/Wastewater Fund are expected to generate \$3.3 million in Interest Income during FY 2000-01, or 6.5% of the Fund's total revenue. Other sources of fund revenue include a loan repayment from the General Fund, land and building rental fees, delinquent payment charges, and miscellaneous fees and charges.



## Expenditure Structure

Total estimated operating expenses for FY 2000-01 are \$40.0 million.

Together, Debt Service Interest and Depreciation, Personal Services and Wastewater Plant Regional Operating Expenses represent 67.9% of the total operating expenses.



When disaggregated, the composition of fund expenditures is earmarked for Debt Service Interest and Depreciation (37.9%), Personal Services (21.1%), Wastewater Plant Regional Operating Expenses (10.6%), Internal Services (10.1%), Electricity and Water (8.7%), and All Other (11.6%).

### ■ Debt Service Interest/Depreciation

Debt Service Interest and Depreciation account for 37.9% of total estimated expenses for FY 2000-01, indicative of the capital intensive nature of a water/wastewater operation. Since the Enterprise Funds are presented in this forecast on an accrual basis (GAAP basis), only the interest portion of debt service is included, along with depreciation (rather than debt service principal and capital outlay).

Depreciation reflects the annual depreciation expense associated with city-owned capital equipment and

facilities, plus Tempe's share of the depreciation expense related to the 91<sup>st</sup> Avenue Wastewater Treatment Plant.

The City plans to issue significant new debt in this fund through FY 2006-07. The debt service obligation budgeted for FY 2000-01 is \$11.4 million.

### ■ Personal Services

Personal Services represent \$8.4 million or 21.1% of Water/Wastewater operating expenditures. Salaries and wages account for 80.8% of the total Personal Services budget, followed by health insurance at 9.4%, FICA at 6.1%, retirement at 2.1%, and other 1.6%.

Due to ongoing re-engineering efforts there is a planned sunseting of 4 positions in FY 2001-02. Also, reorganization resulted in this department acquiring the customer services operation.

### ■ Wastewater Plant Regional Operating Expenses

Tempe participates in an inter-governmental agreement for the construction, operation, and maintenance of jointly used facilities, including the 91<sup>st</sup> Avenue Wastewater Treatment Plant, Salt River Project Outfall Sewer and the Southern Avenue Interceptor. The City pays for upgrades based on capacity and relative sewage flows and strengths.

Expenses associated with the 91<sup>st</sup> Avenue Plant represent \$4.2 million or 10.6% of the FY 2000-01 total. Excess sewer capacity will continue to be purchased to accommodate increasing flow demand. Planning and cost-benefit assessments are currently underway to estimate the costs associated with additional sewage

treatment capacity and available alternatives.

#### ■ Internal Services

Internal Services costs for information systems, communications, vehicle maintenance, and indirect charges account for \$4.0 million or 10.1% of FY 2000-01 Water/Wastewater expenses.

#### ■ Electricity and Water

Utilities comprise a major expense within this fund, as substantial electricity and water is required to provide these services. For FY 2000-01, electricity and water are budgeted at \$3.0 million, or 8.7% of total expenses.

#### ■ All Other

Other major budgeted expenses include \$1.8 million for chemicals, \$434,000 for water quality testing and \$617,000 for contracted services.

### Summary

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FY 2000-01 estimated operating expenses for the Water/Wastewater Fund are \$39.9 million, an 8.3% or \$3,057,000 increase from actual FY 1999-00 expenses. Tempe's shared cost to operate the 91<sup>st</sup> Avenue Wastewater Treatment Plant is expected to increase by \$1.5 million. Interest on Debt Service is expected to increase by \$221,000 in FY 2000-01, while inflation and accelerated depreciation accounts for remaining increases. Overall, expenditure growth was held down by re-engineering efforts by the Water Management Division.

Revenues for FY 2000-01 are projected to be \$50.5 million, a 1.6% decrease over actual FY 1999-00 collections. During FY 1999-00, rate adjustments are planned to bring the Wastewater operation closer to full cost recovery. The adjustments to occur in FY 1998-99

represent the second year of a planned phased-in rate increase.

### Trend/Forecast

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The sewer rate increase approved by the Council in November 1999 appears to be having the intended effect of eliminating, at least in the short-term, a projected deficit condition in the Water/Wastewater Fund. The primary intent of this rate adjustment was to ensure full cost recovery in the wastewater operation. Additionally, the new rate structure is intended to equitably charge all customers based on the volume and strength of discharges. The November increase was part of the planned phased-in sewer rate increase, with the goal of achieving full cost recovery by the third year.

The need for further rate adjustments in the sewer service area will be reviewed annually. Uncertainties still exist regarding the impact of the new usage and "strength-based" rate structure on the major industrial customers. The new rate structure may have the effect of encouraging these customers to reduce discharges or at least alter the strengths of discharges, both of which could substantially reduce revenues. Such changes should produce reductions in the City's shared cost of operating the 91<sup>st</sup> Avenue facility, although those reductions may not mirror revenue losses. Thus, the long-term outlook for this fund could change substantially depending to large extent on 91<sup>st</sup> Avenue costs.

As the long range forecast predicts, the Water/Wastewater Fund may enter a deficit condition by the end of the forecast period as the growth in treatment



costs outpace revenue growth. For the purposes of the forecast, we have assumed no further rate adjustments. As more data becomes available revealing the longer term impact of the new rate structure, this assumption must be revisited. Throughout the forecast period, pay-as-you-go financing for Water/Wastewater Capital Improvements Program will continue to be utilized to help offset higher debt service costs.

#### **Unreserved Retained Earnings**

A history of Water/Wastewater Fund balances shows the drawdown that occurred in the early 1990's as the result of pay-as-you-go financing for infrastructure improvements. To illustrate, unreserved retained earnings were \$22.9 million at FYE 90 and were drawn down as low as \$14.3 million in FYE 91, before being built back up to \$56.4 million by FYE 00.

Over the period of this forecast, healthy fund balances should be retained, notwithstanding the impact of compliance driven contingencies. With \$40.0 million in projected FY 2000-01 expenses, the \$56.4 million fund balance provides 141% coverage to operating expenses in this fund, providing a degree of flexibility likely to be required in the future.

FYE	Unreserved Retained Earnings
89	\$29,840,608
90	22,891,993
91	14,310,524
92	18,217,298
93	20,667,194
94	21,671,776
95	24,383,051
96	33,746,270
97	36,796,384
98	41,020,060
99	55,159,498
00	56,434,920

**City of Tempe  
Forecast Model  
Water/Wastewater Fund Revenue**

	<b>FY 00/01 Revised</b>	<b>FY 01/02 Projected</b>	<b>FY 02/03 Projected</b>	<b>FY 03/04 Projected</b>	<b>FY 04/05 Projected</b>	<b>FY 05/06 Projected</b>
Charges for Service-Water						
Water Consumption	20,849,308	21,072,400	21,285,000	21,499,300	21,715,800	21,934,500
Water Service	6,789,993	6,862,600	6,931,800	7,001,600	7,072,100	7,143,300
Irrigation	220,000	220,000	220,000	220,000	220,000	220,000
Other Water Charges	613,602	620,200	626,500	632,800	639,200	645,600
<i>Total Charges for Service-Water</i>	28,472,903	28,775,200	29,063,300	29,353,700	29,647,100	29,943,400
Charges for Service-Wastewater						
Sewer Usage	13,001,466	13,140,600	13,273,200	13,406,900	13,541,900	13,678,300
Sewer Service	4,400,000	4,447,100	4,492,000	4,537,200	4,582,900	4,629,000
Other Wastewater Charges	185,421	187,400	189,300	191,200	193,100	195,000
<i>Total Charges for Service-Wastewater</i>	17,586,887	17,775,100	17,954,500	18,135,300	18,317,900	18,502,300
Interest Income	3,300,000	3,300,000	3,490,000	3,670,000	3,770,000	3,720,000
Land and Facility Rental	500,000	490,000	490,000	490,000	490,000	490,000
Loan Repayment	623,967	623,967	623,967	623,967	623,967	623,967
Other Miscellaneous Revenue	23,799	24,100	24,300	24,500	24,700	24,900
<b>Total Water/Wastewater Revenue</b>	<b>50,507,556</b>	<b>50,988,367</b>	<b>51,646,067</b>	<b>52,297,467</b>	<b>52,873,667</b>	<b>53,304,567</b>

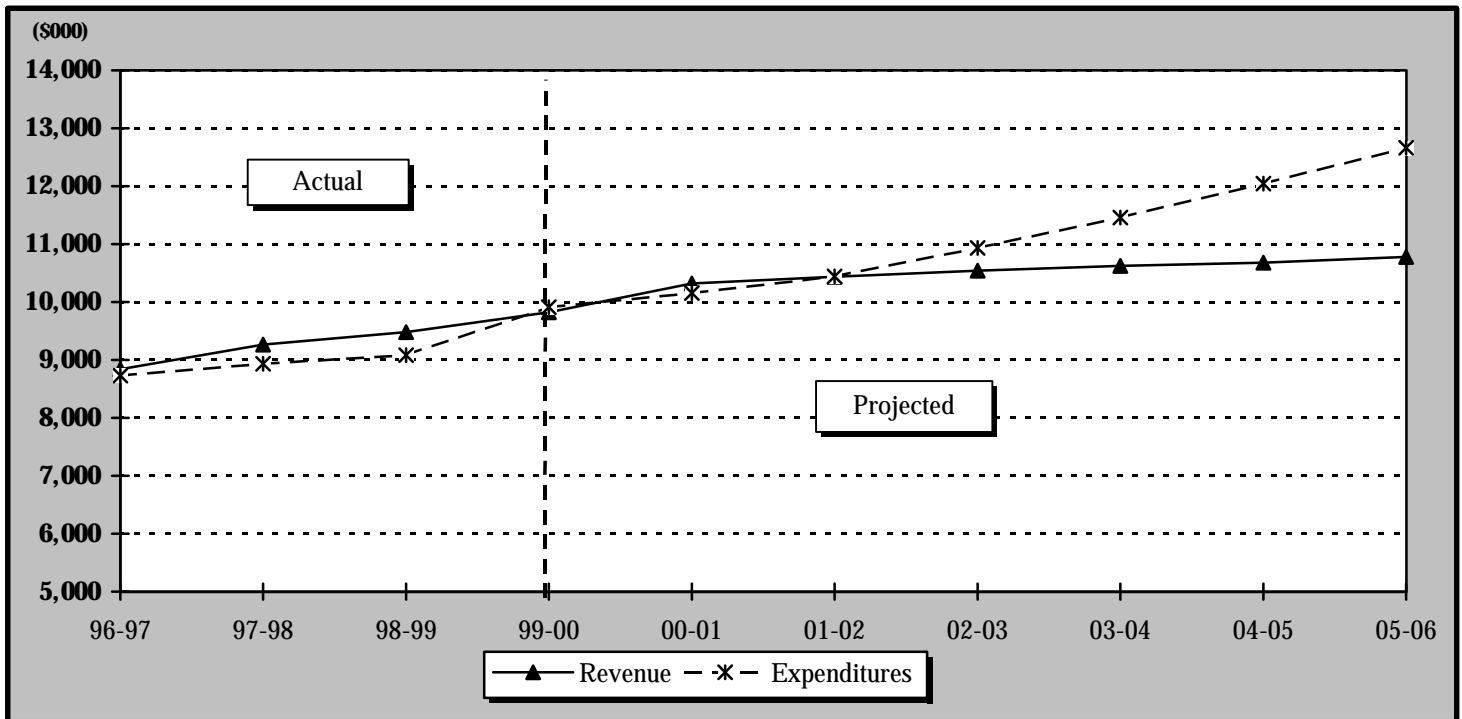
Last Update: 2001

**City of Tempe  
Forecast Model  
Water/Wastewater Fund Expenses**

	<b>FY 00/01 Revised</b>	<b>FY 01/02 Projected</b>	<b>FY 02/03 Projected</b>	<b>FY 03/04 Projected</b>	<b>FY 04/05 Projected</b>	<b>FY 05/06 Projected</b>
Salaries and Wages	6,788,772	7,020,100	7,441,300	7,887,800	8,361,100	8,862,800
Fringe Benefits						
FICA	516,118	537,000	569,300	603,400	639,600	678,000
Retirement-ASRS	180,630	186,700	197,900	209,800	222,400	235,800
Health Insurance	793,703	796,200	897,100	1,015,500	1,183,500	1,370,700
Mediflex Reimbursed Expense	81,395	82,300	83,200	84,000	84,800	85,700
Other Fringe Benefits	41,500	43,100	44,800	46,500	48,300	50,200
<i>Total Fringe Benefits</i>	1,613,346	1,645,300	1,792,300	1,959,200	2,178,600	2,420,400
<i>Total Personal Services</i>	8,402,118	8,665,400	9,233,600	9,847,000	10,539,700	11,283,200
Materials and Supplies						
Chemicals	1,821,479	1,890,700	1,963,500	2,040,100	2,120,700	2,205,500
Maintenance Supplies	375,406	389,700	404,700	420,500	437,100	454,600
Other Materials and Supplies	229,680	238,400	247,600	257,300	267,500	278,200
<i>Total Materials and Supplies</i>	2,426,565	2,518,800	2,615,800	2,717,900	2,825,300	2,938,300
Fees and Services						
91 <sup>st</sup> Avenue Operating Expenses	4,220,000	4,430,000	4,660,000	4,890,000	5,083,155	5,286,481
Electricity	2,060,300	2,157,100	2,259,600	2,368,100	2,483,000	2,607,200
Salt River Project Water	542,000	562,600	584,300	607,100	631,100	656,300
Central Arizona Project Water	444,000	460,900	478,600	497,300	516,900	537,600
Water Quality Testing	434,000	450,500	467,800	486,000	505,200	525,400
Contracted Services	617,249	640,700	665,400	691,400	718,700	747,400
Other Fees and Services	1,516,478	1,574,100	1,634,700	1,698,500	1,765,600	1,836,200
<i>Total Fees and Services</i>	9,834,027	10,275,900	10,750,400	11,238,400	11,703,655	12,196,581
Travel and Training	71,141	73,800	76,600	79,600	82,700	86,000
Depreciation Expense	9,293,861	10,037,370	10,840,359	11,707,588	12,644,195	13,655,730
Share of 91 <sup>st</sup> Avenue Depreciation	1,750,000	1,760,000	1,770,000	1,780,000	1,780,000	1,780,000
Debt Service Interest/Fiscal Agent Fees	4,051,708	4,635,596	4,507,844	4,604,510	5,275,839	4,988,680
Internal Service/Adjustments	1,850,504	2,026,102	2,215,720	2,420,417	2,641,417	2,880,042
Indirect Cost Allocations	2,186,234	2,269,300	2,356,700	2,448,600	2,545,300	2,647,100
<b>Total Water/Wastewater Expenses</b>	<b>39,866,158</b>	<b>42,262,267</b>	<b>44,367,023</b>	<b>46,844,015</b>	<b>50,038,105</b>	<b>52,455,634</b>
<b>Total Water/Wastewater Revenue</b>	<b>50,507,556</b>	<b>50,988,367</b>	<b>51,646,067</b>	<b>52,297,467</b>	<b>52,873,667</b>	<b>53,304,567</b>
Designated for Capital Projects	4,198,080	579,830	583,330	177,580	150,000	150,000
<b>Net Operating Surplus/(Deficit)</b>	<b>6,443,318</b>	<b>8,146,270</b>	<b>6,695,714</b>	<b>5,275,872</b>	<b>2,685,562</b>	<b>698,933</b>

Last Update: 2001

# Sanitation Fund: Projected Revenue and Expenses



	96/97 Actual	97/98 Actual	98/99 Actual	99/00 Actual	00/01 Revised	01/02 Projected	02/03 Projected	03/04 Projected	04/05 Projected	05/06 Projected
<b>Revenue (\$000)</b>										
Charges for Services	8,493	8,822	9,132	9,407	10,040	10,144	10,246	10,349	10,452	10,557
Sludge Disposal	143	218	223	123	210	212	214	217	219	221
Interest Income	95	123	126	100	70	79	79	57	11	0
Other Revenue Sources	107	101	0	193	0	0	0	0	0	0
<b>Total Revenue</b>	<b>8,838</b>	<b>9,264</b>	<b>9,481</b>	<b>9,823</b>	<b>10,320</b>	<b>10,435</b>	<b>10,539</b>	<b>10,622</b>	<b>10,682</b>	<b>10,778</b>
<b>Expenses (\$000)</b>										
Personal Services	2,589	2,596	2,769	3,029	3,181	3,326	3,547	3,786	4,057	4,348
Materials and Supplies	166	203	440	342	155	161	167	174	180	188
Fees and Services	2,877	2,905	2,882	2,875	2,988	3,102	3,221	3,347	3,479	3,619
Depreciation	890	897	915	1,206	1,217	1,228	1,239	1,250	1,261	1,272
Loan Repayment-Interest Only	48	42	137	137	137	16	8	0	0	0
Internal Service/Adjustments	1,587	1,529	1,388	1,617	1,821	1,930	2,047	2,172	2,305	2,448
Indirect Cost Allocations	571	763	550	708	653	678	704	731	760	790
<b>Total Expenses</b>	<b>8,728</b>	<b>8,935</b>	<b>9,082</b>	<b>9,913</b>	<b>10,153</b>	<b>10,440</b>	<b>10,933</b>	<b>11,458</b>	<b>12,042</b>	<b>12,664</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>111</b>	<b>329</b>	<b>399</b>	<b>(90)</b>	<b>167</b>	<b>(5)</b>	<b>(394)</b>	<b>(836)</b>	<b>(1,360)</b>	<b>(1,886)</b>

Latest rate increase was November 1, 1999 for residential, industrial, and commercial customers.

Note: Actuals reflect figures represented in the Comprehensive Annual Financial Report.

## Sanitation Fund

### Fund Structure

#### Description

The Sanitation Fund is a self-supporting enterprise fund intended to recover all operating, maintenance, and debt service costs to provide residential, commercial, recycling and roll-off solid waste services.

#### Major Services

This enterprise fund provides for:

- Residential Collection
- Commercial Collection
- Recycling Collection
- Roll-Off Collection

#### Revenue Structure

Revenue in the Sanitation Fund derives almost exclusively from user fees for residential, recycling, commercial, roll-off, and uncontained solid waste service. These revenues are supplemented by a small amount of interest revenue. The collection and disposal of contained refuse represents the City's second largest enterprise operation.

##### ■ Residential Solid Waste User Fees

Residential solid waste user fee revenues are expected to amount to \$5.2 million or 50.3% of the total revenues for this fund. Residential customers pay \$11.75 per month and the number of active accounts total 34,131.

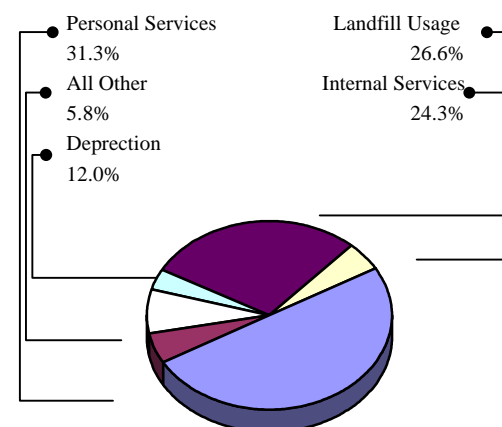
##### ■ Commercial Solid Waste User Fees

Commercial solid waste fees generate \$3.8 million or 37.2% of the total fund revenues in FY 2000-01. Collection of commercial solid waste is provided by the City or a licensed collector. The number of active commercial accounts total 2,158. The number of commercial

accounts is expected to remain steady and could decline as competition for commercial refuse services increases.

### Expenditure Structure

Sanitation estimated expenses for FY 2000-01 total \$10.2 million. Of the total operating expenses, Personal Services, Internal Services and Landfill Usage Charges comprise 82.2%, while the remaining 17.7% is for Materials and Supplies, Utilities, and Miscellaneous Fees and Services. Detail of each account is depicted in the following graph.



##### ■ Personal Services

As with many labor intensive operations, Personal Services represent a major expense in the Sanitation Fund, accounting for \$3.2 million or 31.3% of the \$10.2 million FY 2000-01 budget. Salaries account for 79.1% of the total personal services budget, with health insurance accounting for 11.5% and the remainder for other fringe benefits.

##### ■ Landfill Usage Charges

Landfill usage charges represent 26.6% or \$2.7 million of total FY 2000-01 expenses. Increases in landfill tipping fees are projected to follow expected inflation rates, but environmental



compliance requirements could impact these expenses beyond normal inflation.

#### ■ **Internal Services**

Internal Service charges represent 24.3% or \$2.5 million of the total FY 2000-01 budget. Internal Service charges consist of data processing, communications, vehicle maintenance and other related charges. As might be expected in sanitation operations, a majority (54.6%) of the total internal service costs derive from vehicle operating and maintenance expenses.

#### ■ **Depreciation/All Other**

The FY 2000-01 Sanitation budget reflects depreciation expense of \$1.2 million, primarily related to sanitation vehicles. Other budgeted expenses include recycling sorting fees (\$156,064).

### **Summary**

The Sanitation Fund budget of \$10.2 million for FY 2000-01 represents a \$239,879 (2.4%) increase from actual FY 1999-00 expenses. The increase is due primarily to adjustments for inflation (salary market adjustments and general inflation).

Revenues in this fund are expected to increase to \$10.3 million in FY 2000-01, a 0.5% increase over actual FY 1999-00 collections. Much of the increase is due to an industrial, commercial, and residential rate increase implemented in November 1999.

### **Trend/Forecast**

With the FY 1999-00 shortfall in this fund, sanitation rates were modified to fully recover the cost of the sanitation operation and replacement obligations. Although, an industrial, commercial, and

residential rate increase was implemented in November 1999, shortfalls are still projected over the course of the forecast period (assuming no further rate increases are enacted). Unexpected increases in personal services, landfill usage charges, recycling costs, and inflation could worsen projected shortfalls in this fund beyond our estimates.

Sanitation rates will be subject to annual rate reviews to ensure that the fund remains fully self-sufficient and to smooth the effect of potential rate adjustments on the City's residential and commercial customers.

### **Unreserved Retained Earnings**

There is a \$1,162,872 fund balance in the Sanitation Fund, providing 11.5% coverage to estimated FY 2000-01 expenses of \$10.2 million. Unreserved retained earnings in this fund may be depleted by FY 2005-06 without an increase in rates. With environmental mandates always present, this enterprise operation will require as much financial flexibility as possible for contingent compliance driven costs.

<b>FYE</b>	<b>Unreserved Retained Earnings</b>
90	\$819,055
91	1,108,211
92	1,390,637
93	1,672,646
94	1,442,692
95	1,542,782
96	1,135,131
97	1,623,386
98	1,979,294
99	2,168,155
00	1,162,872

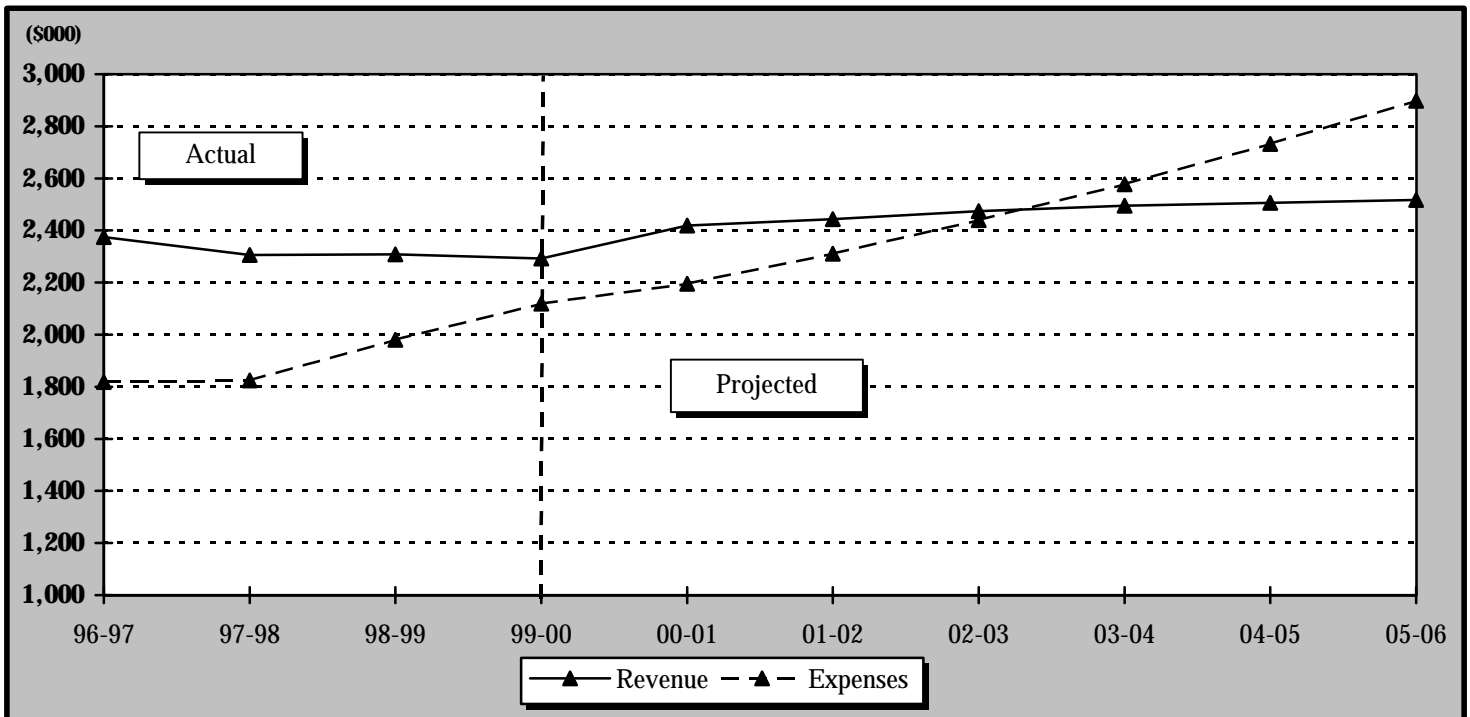


**City of Tempe  
Forecast Model  
Sanitation Fund**

	<b>FY 00/01 Revised</b>	<b>FY 01/02 Projected</b>	<b>FY 02/03 Projected</b>	<b>FY 03/04 Projected</b>	<b>FY 04/05 Projected</b>	<b>FY 05/06 Projected</b>
<b><u>Revenue</u></b>						
Charges for Services						
Residential Service	5,186,464	5,242,000	5,294,900	5,348,200	5,402,100	5,456,500
Commercial Service	3,833,716	3,872,100	3,910,800	3,949,900	3,989,400	4,029,300
Roll-Off Service	974,500	984,200	994,000	1,003,900	1,013,900	1,024,000
Recycling	45,000	45,500	46,000	46,500	47,000	47,500
<i>Total Charges for Service</i>	10,039,680	10,143,800	10,245,700	10,348,500	10,452,400	10,557,300
Sludge Disposal	210,000	212,200	214,300	216,500	218,700	220,900
Interest Income	70,000	79,200	78,900	57,200	11,200	0
Other Revenue Sources	0	0	0	0	0	0
<b>Total Revenue</b>	<b>10,319,680</b>	<b>10,435,200</b>	<b>10,538,900</b>	<b>10,622,200</b>	<b>10,682,300</b>	<b>10,778,200</b>
<b><u>Expenses</u></b>						
Salaries and Wages	2,515,815	2,666,800	2,826,800	2,996,400	3,176,200	3,366,800
Fringe Benefits						
FICA	191,233	204,000	216,300	229,200	243,000	257,600
Retirement-ASRS	68,525	70,900	75,200	79,700	84,500	89,600
Health Insurance	363,644	341,600	384,900	435,700	507,800	588,100
Mediflex Reimbursed Expense	29,775	30,100	30,400	30,700	31,000	31,300
Other Fringe Benefits	12,300	12,800	13,300	13,800	14,300	14,900
<i>Total Fringe Benefits</i>	665,477	659,400	720,100	789,100	880,600	981,500
<i>Total Personal Services</i>	3,181,292	3,326,200	3,546,900	3,785,500	4,056,800	4,348,300
Materials and Supplies	154,940	160,800	167,000	173,500	180,400	187,600
Fees and Services						
Landfill Usage Charges	2,697,139	2,799,600	2,907,400	3,020,800	3,140,100	3,265,700
Recycling Sorting Fee	156,064	162,000	168,200	174,800	181,700	189,000
Other Fees and Services	135,254	140,400	145,800	151,500	157,500	163,800
<i>Total Fees and Services</i>	2,988,457	3,102,000	3,221,400	3,347,100	3,479,300	3,618,500
Depreciation	1,216,836	1,227,645	1,238,549	1,249,551	1,260,650	1,271,848
Loan Repayment-Interest Only	137,482	15,699	8,087	0	0	0
Internal Service Charges/Adjustments	1,821,139	1,930,302	2,047,002	2,171,746	2,305,143	2,447,802
Indirect Cost Allocations	652,751	677,600	703,700	731,100	760,000	790,400
<b>Total Expenses</b>	<b>10,152,897</b>	<b>10,440,246</b>	<b>10,932,638</b>	<b>11,458,497</b>	<b>12,042,293</b>	<b>12,664,450</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>166,783</b>	<b>(5,046)</b>	<b>(393,738)</b>	<b>(836,297)</b>	<b>(1,359,993)</b>	<b>(1,886,250)</b>

Last Update: 2001

## Golf Fund: Projected Revenue and Expenses



	96/97 Actual	97/98 Actual	98/99 Actual	99/00 Actual	00/01 Revised	01/02 Projected	02/03 Projected	03/04 Projected	04/05 Projected	05/06 Projected
<b>Revenue (\$000)</b>										
Greens Fees	2,068	1,990	1,982	1,942	2,183	2,207	2,229	2,252	2,274	2,297
Pro Shop and Restaurant Revenue	262	243	250	284	218	220	223	225	227	229
Interest Income	27	66	76	86	86	110	120	120	110	100
Other Revenue Sources	17	7	0	23	0	0	0	0	0	0
Transfer to Fund Youth Programs	0	0	0	(44)	(69)	(94)	(97)	(101)	(105)	(109)
<b>Total Revenue</b>	<b>2,374</b>	<b>2,305</b>	<b>2,309</b>	<b>2,292</b>	<b>2,419</b>	<b>2,444</b>	<b>2,474</b>	<b>2,495</b>	<b>2,506</b>	<b>2,517</b>
<b>Expenses (\$000)</b>										
Personal Services	826	792	790	834	911	969	1,034	1,105	1,186	1,274
Materials and Supplies	110	146	140	188	146	152	158	164	171	177
Fees and Services	305	296	396	326	373	388	403	420	438	456
Depreciation	265	279	305	354	330	347	366	387	410	435
Debt Service Interest	70	64	61	55	47	42	36	30	23	16
Internal Service Charges	116	96	102	134	155	172	191	212	234	257
Indirect Cost Allocations	126	151	187	229	233	242	251	261	271	282
<b>Total Expenses</b>	<b>1,818</b>	<b>1,824</b>	<b>1,981</b>	<b>2,120</b>	<b>2,195</b>	<b>2,311</b>	<b>2,439</b>	<b>2,578</b>	<b>2,732</b>	<b>2,897</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>556</b>	<b>481</b>	<b>328</b>	<b>173</b>	<b>224</b>	<b>133</b>	<b>35</b>	<b>(83)</b>	<b>(226)</b>	<b>(380)</b>

Latest rate increase: \$1 per nine holes of play for non-residents implemented November 1999 to fund youth recreation programs.

Note: Actuals reflect budget basis figures represented in the Comprehensive Annual Financial Report.

## Golf Fund

### Fund Structure

#### Description

The Golf Fund is a self-supporting enterprise fund similar to the Water/Wastewater and Sanitation Funds, intended to recover all costs incurred through user charges. All activities necessary to provide such services are accounted for in this fund, including administration, operations, maintenance and debt service.

#### Major Services

- Ken McDonald and Rolling Hills Golf Course Operations
- Pro Shops
- Restaurants

#### Revenue Structure

Revenues from greens fees account for 94% of golf course revenues, with the balance derived from a share of pro shops, restaurant revenues, and interest income.

#### ■ Greens Fees

Greens fees amount to \$2.2 million of the total Golf Fund revenues. Greens fees are set by the Council and were last revised in November 1999. An increase of \$1.00 per nine holes for non-residents and an offsetting decrease for residents was implemented at both golf courses.

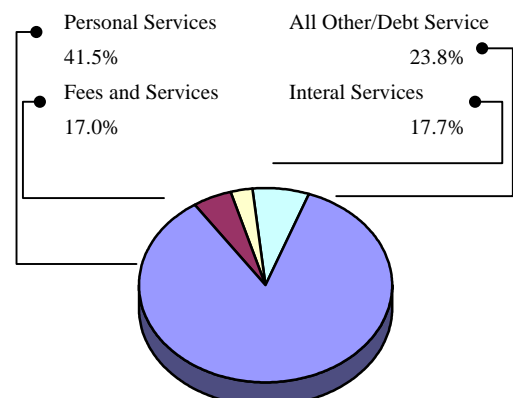
Total rounds in FY 1999-00 for Ken McDonald (9 and 18 holes) and Rolling Hills (9 holes) were 90,000 and 118,000 rounds respectively.

#### ■ Pro Shop and Restaurant Revenue

Pro shop revenues for Rolling Hills are paid to the City by the pro shop based on annual receipts. A minimum payment of \$42,000 a year is paid in advance or 10% of the gross annual receipts, depending on which is greater for the first 5 year term. The second 5 year term is \$46,000 or 11%, and the third 5 year term is \$50,000 or 12%. The restaurant concessionaire pays revenue of \$1,700 per month plus a 4% increase per year since July of 1987. During the first and second five year terms, pro shop revenues at Ken McDonald Golf Course are based on the greater sum of either \$10,000 a month, or the combined sum calculated annually of 20% of the gross cart rental revenues and 10% of the remaining gross receipts not including golf cart revenues. Restaurant revenue is paid to the City monthly, \$2,000 per month with a 3% increase per year thereafter.

#### Expenditure Structure

A review of Golf Fund expenditures reveals that Personal Services, Depreciation and Fees and Services represent the major expenditure areas. Together they account for 75.6% of total Golf Fund expenses. The remaining expenses include Internal Services (17.7%) and Materials and Supplies (6.7%).





### ■ **Personal Services**

Personal Services account for \$910,749 or 41.5% of FY 2000-01 revised expenses. Salaries and wages alone represent 79.0% of total Personal Services in FY 2000-01, with health insurance and FICA accounting for an additional 17.6%. The remainder is for retirement and other benefits.

### ■ **Fees and Services**

Budgeted expenses in this category account for 17.0% of total spending and are comprised primarily of funding for irrigation water and electricity.

### ■ **Internal Services**

Golf operation internal service costs are composed primarily of charges for vehicle maintenance and fuel.

### ■ **All Other**

Other major budgeted expenses include Depreciation and Debt Service Interest (17.2%), and Materials and Supplies (6.7%).

### **Summary**

Golf Fund appropriations for FY 2000-01 are budgeted at \$2.2 million, an increase of 3.6% over FY 1999-00 expenses.

Revenues are expected to reach \$2.4 million in FY 2000-01. By financial policy, the City maintains an unrestricted optimum fund balance level of at least 10% of anticipated revenues. The FYE 2000 fund balance reserve was \$1,538,156 or 64.0% of estimated FY 2000-01 operating revenues.

### **Trend/Forecast**

Over the forecast period, we expect revenue growth to generally follow the historical use patterns, although other unpredictable factors such as weather

conditions, may improve or worsen the revenue picture. Given our revenue assumptions, the Golf Fund could experience a deficit condition beginning in FY 2002-03, provided no rate adjustments are approved by the Council. As with the City's other self-supporting Enterprise operations, annual rate reviews will be conducted to maintain a favorable financial position in the Golf Fund.

### **Unreserved Retained Earnings**

After six consecutive years of fund balance losses the trend was reversed, at least in the short-term, in FY 1995-96 as increased rounds of play bolstered the reserve to over \$350,000. Fiscal years 98-99 through 99-00 proved to be good years as the fund ended the FY 99-00 with a balance of \$1,538,156. This balance will provide some flexibility in funding current and future capital improvements.

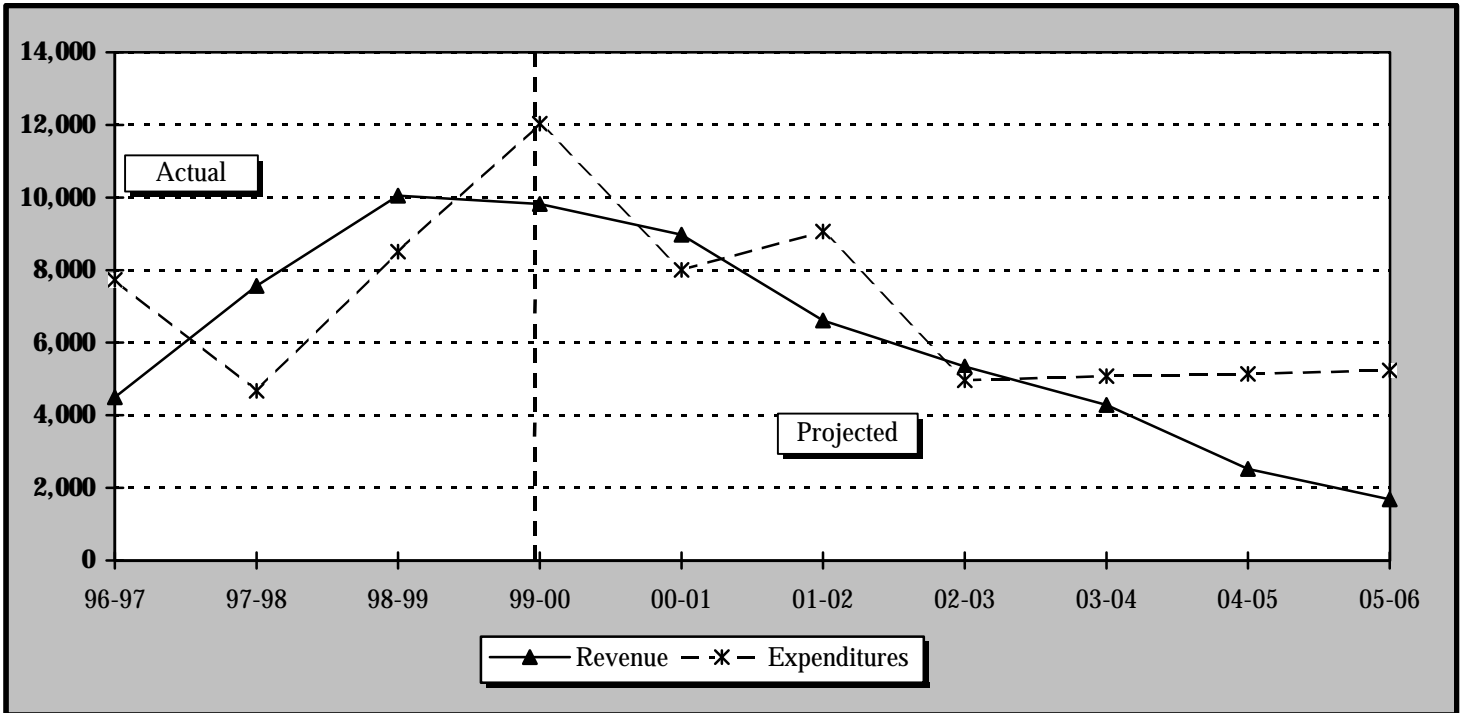
FYE	Unreserved Fund Balance
90	\$482,619
91	346,301
92	345,712
93	139,693
94	54,780
95	50,000
96	351,158
97	896,542
98	1,397,897
99	1,638,174
00	1,538,156

**City of Tempe  
Forecast Model  
Golf Fund**

	<b>FY 00/01 Revised</b>	<b>FY 01/02 Projected</b>	<b>FY 02/03 Projected</b>	<b>FY 03/04 Projected</b>	<b>FY 04/05 Projected</b>	<b>FY 05/06 Projected</b>
<b><u>Revenue</u></b>						
Greens Fees	2,183,424	2,206,800	2,229,100	2,251,500	2,274,200	2,297,100
Pro Shop and Restaurant Revenue	218,000	220,300	222,500	224,700	227,000	229,300
Interest Income	86,000	110,000	120,000	120,000	110,000	100,000
Transfer to Fund Youth Programs	(68,900)	(93,518)	(97,119)	(100,906)	(104,892)	(109,088)
<b>Total Revenue</b>	<b>2,418,524</b>	<b>2,443,582</b>	<b>2,474,481</b>	<b>2,495,294</b>	<b>2,506,308</b>	<b>2,517,312</b>
<b><u>Expenses</u></b>						
Salaries and Wages	719,203	762,400	808,100	856,600	908,000	962,500
Fringe Benefits						
FICA	55,019	58,300	61,800	65,500	69,500	73,600
Retirement-ASRS	20,007	20,300	21,500	22,800	24,200	25,600
Health Insurance	104,903	115,600	130,300	147,500	171,900	199,000
Mediflex Reimbursed Expense	8,068	8,200	8,300	8,400	8,500	8,600
Other Fringe Benefits	3,549	3,700	3,800	3,900	4,100	4,300
<i>Total Fringe Benefits</i>	191,546	206,100	225,700	248,100	278,200	311,100
<i>Total Personal Services</i>	910,749	968,500	1,033,800	1,104,700	1,186,200	1,273,600
Materials and Supplies	146,476	152,000	157,900	164,100	170,600	177,400
Fees and Services						
Water	240,000	249,100	258,700	268,800	279,400	290,600
Electricity	93,150	97,500	102,100	107,000	112,200	117,800
Other Fees and Services	39,381	40,900	42,500	44,200	45,900	47,700
<i>Total Fees and Services</i>	372,531	387,500	403,300	420,000	437,500	456,100
Depreciation	329,704	347,120	366,443	387,272	410,449	435,261
Debt Service Interest	47,405	41,555	35,780	29,675	23,015	15,953
Internal Service/Adjustments	155,127	172,436	191,222	211,549	233,520	257,338
Indirect Cost Allocations	232,788	241,600	250,900	260,700	271,000	281,800
<b>Total Expenses</b>	<b>2,194,781</b>	<b>2,310,711</b>	<b>2,439,345</b>	<b>2,577,996</b>	<b>2,732,284</b>	<b>2,897,451</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>223,743</b>	<b>132,871</b>	<b>35,137</b>	<b>(82,702)</b>	<b>(225,976)</b>	<b>(380,139)</b>

Last Update: 2001

# Rio Salado/Community Facilities Fund: Projected Revenue and Expenditures



	96/97 Actual	97/98 Actual	98/99 Actual	99/00 Actual	00/01 Revised	01/02 Projected	02/03 Projected	03/04 Projected	04/05 Projected	05/06 Projected
<b>Revenue (\$000)</b>										
General Fund Allocation	4,500	7,000	8,600	7,260	7,794	5,445	3,940	2,724	935	0
Sales Tax	0	461	685	583	580	612	639	667	667	694
Transient Lodging Tax	0	63	85	109	112	124	136	150	150	165
Interest Revenue	0	42	65	473	270	240	430	550	570	540
Sale of Real Estate	0	0	0	888	0	0	0	0	0	0
Bond Forfeiture	0	0	0	300	0	0	0	0	0	0
Other Revenue	0	0	24	33	33	33	33	33	33	33
CFD Revenue	0	0	592	173	183	158	161	163	166	255
<b>Total Revenue</b>	<b>4,500</b>	<b>7,566</b>	<b>10,050</b>	<b>9,819</b>	<b>8,973</b>	<b>6,612</b>	<b>5,339</b>	<b>4,288</b>	<b>2,521</b>	<b>1,687</b>
<b>Expenditures (\$000)</b>										
Personal Services	54	104	374	540	577	608	647	689	737	789
Materials and Supplies	0	1	21	16	59	62	64	67	69	72
Fees and Services	0	95	102	176	629	653	678	704	732	761
Travel and Training	0	0	8	46	14	19	20	22	23	25
Contributions (Aircraft Noise)	0	0	123	0	0	0	0	0	0	0
Capital Outlay	24	0	6	146	0	0	0	0	0	0
Purchase of Land	3,577	0	0	0	0	0	0	0	0	0
Internal Service Charges	0	1	63	96	68	78	89	101	114	127
CFD Administrative Credit	0	0	(62)	(440)	(440)	(457)	(475)	(493)	(513)	(533)
CFD Operating and Maintenance	0	449	258	1,940	3,606	3,623	3,641	3,659	3,679	3,699
<b>Total Expenditures</b>	<b>3,655</b>	<b>648</b>	<b>892</b>	<b>2,520</b>	<b>4,514</b>	<b>4,585</b>	<b>4,664</b>	<b>4,749</b>	<b>4,841</b>	<b>4,940</b>
Designated for Capital Projects	4,074	4,025	7,614	9,511	3,490	4,478	303	333	300	300
<b>Net Operating Surplus/(Deficit)*</b>	<b>(3,228)</b>	<b>2,893</b>	<b>1,544</b>	<b>(2,212)</b>	<b>969</b>	<b>(2,451)</b>	<b>372</b>	<b>(794)</b>	<b>(2,620)</b>	<b>(3,553)</b>

Note: Actuals reflect budget basis figures represented in the Comprehensive Annual Financial Report.

\* Net Operating Surpluses/(Deficits) are offset by prior years' fund balances.

## Rio Salado Community Facilities District Fund

### Fund Structure

#### Description

The Rio Salado and Community Facilities District Funds (CFD) are special revenue funds, the intent of which is to be used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The Rio Salado fund is to account for the receipt and expenditure of miscellaneous monies used to foster the development of Rio Salado. This fund is used to pay for 40% of lake costs associated with operating and maintenance expenditures from levee to levee and dam to dam.

The Community Facilities District fund is to account for the receipt and expenditure of monies for the Rio Salado Community Facilities District. All activities necessary to provide such services are accounted for in this fund, including administration, operations, and maintenance.

#### Major Services

- Park/Open Space
- Retail Opportunities
- Office Space
- Residential

### Revenue Structure

Revenues from the General Fund Allocation account for 88% of Rio Salado revenues, with the balance derived from sales tax, transient lodging, and interest revenue from within the Rio Salado zone.

#### General Fund Allocation

In accordance with Council approved budget policies, 1/3 of General Fund anticipated surplus is allocated to the Rio Salado program for capital improvements and operating costs.

#### Tax Revenue

The Rio Salado Fund retains City sales tax and transient lodging revenues generated within the enterprise zone. Future revenue collections will include property tax associated with development in this designated zone.

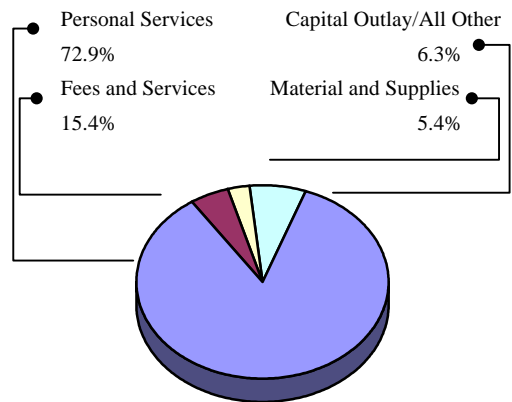
#### CFD Revenue

CFD Revenue consists of boat permits, concessions, and special event fees.

### Expenditure Structure

#### Rio Salado Operating and Maintenance

A review of Rio Salado Fund (net of the CFD costs) expenditures reveals that Personal Services, and Fees and Services represent the major expenditure areas. Together they account for 88.3% of total Rio Salado Fund expenditures. The remaining expenditures include Capital Outlay/All Other (6.3%) and Materials and Supplies (5.4%). Percentages are net of CFD credit.



### ■ Personal Services

Personal Services account for 42.8% of FY 2000-01 budgeted expenses. Salaries and wages alone represent 80.0% of total Personal Services in FY 2000-01, with health insurance and FICA accounting for an additional 16.2%. The remainder is for retirement and other benefits.

### ■ Fees and Services

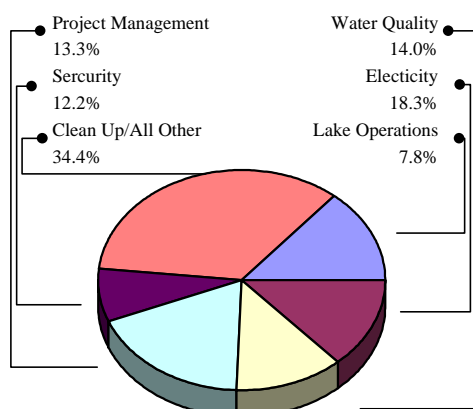
Budgeted expenses in this category account for 46.6% of total spending and are comprised primarily of funding for lake security and landscaping costs.

### ■ Material and Supplies

Rio Salado operation costs are composed primarily of charges for general office supplies.

### ■ CFD Operating and Maintenance

CFD operating and maintenance costs are primarily comprised of: project management, lake operations, electricity, water quality management, security, and cleanup/landscaping.



### Summary

Rio Salado and Community Facilities Funds appropriations for FY 2000-01 are budgeted at \$2 million, an increase of 22.9% over FY 1999-00 expenses.

Due to the nature of this fund, expenditures have exceeded revenue

collections. This is primarily due to start-up costs that included large capital and land expenditures; these (costs) out-paced revenue streams.

### Trend/Forecast

Rio Salado's single largest revenue source is the General Fund allocation (1/3 of any surplus). If the General Fund expenditures exceed revenue collections it will have a direct negative affect, and is depicted in the later years of this forecast.

The second largest revenue source, tax revenue, is highly responsive to changes in economic activity. The financial health of this fund is dependent on the nature of development in Rio Salado.

CFD revenue includes assessment collections from property owners and boat permits, concessions, and special event fees. Overall revenue is projected to decrease as next fiscal year reflects a price decrease in boat permits.

### Unreserved Fund Balance

The unreserved fund balance reached a high of \$5.4 million in FY 1998-99. The variations depiction of the unreserved fund balance is due to planned drawdowns to fund capital and land purchase costs.

FYE	Unreserved Fund Balance
97	1,138,546
98	4,031,073
99	5,440,869
00	2,534,762



**City of Tempe  
Forecast Model  
Rio Salado and Community Facilities  
District Fund**

	<b>FY 00/01 Revised</b>	<b>FY 01/02 Projected</b>	<b>FY 02/03 Projected</b>	<b>FY 03/04 Projected</b>	<b>FY 04/05 Projected</b>	<b>FY 05/06 Projected</b>
<b><u>Revenue</u></b>						
Local Taxes						
General Fund Allocation	7,794,361	5,445,343	3,940,341	2,724,422	935,009	0
City Sales Tax	580,000	611,600	639,000	667,000	667,000	694,000
Transient Lodging Tax	112,300	123,500	135,900	149,500	149,500	164,500
<i>Total Local Taxes</i>	8,486,661	6,180,443	4,715,241	3,540,922	1,751,509	858,500
Community Facilities District (CFD)						
Revenue	183,053	158,053	160,653	163,353	166,253	255,153
Special Revenue Fund Transfer	0	0	0	0	0	0
Other Revenue Sources						
Interest	270,000	240,000	430,000	550,000	570,000	540,000
Sale of Real Estate	0	0	0	0	0	0
Bond Forfeiture	0	0	0	0	0	0
Miscellaneous	33,242	33,242	33,242	33,242	33,242	33,242
<i>Total Other Revenue</i>	303,242	273,242	463,242	583,242	603,242	573,242
<b>Total Revenue</b>	<b>8,972,956</b>	<b>6,611,739</b>	<b>5,339,136</b>	<b>4,287,517</b>	<b>2,521,004</b>	<b>1,686,895</b>
<b><u>Expenditures</u></b>						
Salaries and Wages	462,254	490,000	519,400	550,600	583,600	618,600
Fringe Benefits						
FICA	34,638	37,500	39,700	42,100	44,600	47,300
Retirement-ASRS	12,060	13,000	13,800	14,600	15,500	16,500
Health Insurance	58,741	57,200	63,800	71,500	82,500	94,600
Mediflex Reimbursed Expense	3,351	3,500	3,600	3,700	3,800	4,000
Other Fringe Benefits	6,180	6,400	6,600	6,900	7,200	7,500
<i>Total Fringe Benefits</i>	114,970	117,600	127,500	138,800	153,600	169,900
<i>Total Personal Services</i>	577,223	607,600	646,900	689,400	737,200	788,500
Materials and Supplies	59,450	61,700	64,100	66,600	69,200	72,000
Fees and Services						
Contracted Services	529,348	549,500	570,700	593,000	616,400	641,100
Advertising	75,900	78,800	81,800	85,000	88,400	91,900
Outside Printing	10,000	10,400	10,800	11,200	11,600	12,100
Other Fees and Services	13,259	13,800	14,300	14,900	15,500	16,100
<i>Total Fees and Services</i>	628,507	652,500	677,600	704,100	731,900	761,200
Travel and Training	14,216	18,600	20,000	21,500	23,100	24,700
Purchase of Land	0	0	0	0	0	0
Internal Service Charges/Adjustments	68,357	78,350	89,191	100,959	113,654	127,479
CFD Adminstrative Credit	(440,242)	(457,000)	(474,600)	(493,100)	(512,600)	(533,100)
Community Facilities District O&M	3,606,235	3,622,993	3,640,593	3,659,093	3,678,593	3,699,093
<b>Total Expenditures</b>	<b>4,513,746</b>	<b>4,584,743</b>	<b>4,663,784</b>	<b>4,748,552</b>	<b>4,841,047</b>	<b>4,939,872</b>
Designated for Capital Projects	3,490,000	4,478,320	303,000	333,300	300,000	300,000
<b>Net Operating Deficit</b>	<b>969,210</b>	<b>(2,451,324)</b>	<b>372,352</b>	<b>(794,335)</b>	<b>(2,620,043)</b>	<b>(3,552,977)</b>

Last Update: 2001

# Comprehensive Financial Plan

## Debt Management Plan



## Debt Management Plan

### Introduction

In 1989, the City was facing large annual capital programs which varied significantly from year to year, uneven debt repayment schedules with large balloon payments in future years, and unrealistic 5-year Capital Improvements Program budgets with programs without a corresponding source of funding.

As part of a comprehensive debt program, a balanced budget format was established for each year of the 5-year Capital Improvement Program such that proposed budgets included a corresponding (and realistic) revenue source. The effect of this strategy was to level out the 5-year program, creating a more realistic approach to multi-year budgeting. Additionally, the City implemented a program to repay debt on all future bond issues based upon level principal and interest payments. Finally, to insure that debt decisions were based on sound financial criteria, debt ratios were implemented and formed the basis for the Debt Management Plan.

### Ratings Information

Rating agencies issue a credit rating based upon their respective opinion of the creditworthiness of the borrower based upon relevant risk factors to assist purchasers in determining the likelihood of full and timely repayment of the debt. Key rating factors include economic, financial, administrative and management, and debt factors.

Economic factors include employment opportunities and trends, leading industries, diversity of taxpayer base, wealth and income indicators, future growth prospects, and surrounding regional economy.

Financial factors include capacity to raise

revenue, expenditure mandates, stated fiscal goals and policies, and historical performance.

Administrative & management factors include planning efforts, clear goals and policies, adherence to goals and policies, relationship between elected and appointed officials.

Debt factors include current debt burden ratios, current debt structure, debt repayment schedule and future capital financing needs.

Ratings are expressed by different rating agencies slightly differently and are generally expressed with a letter symbol. Generically speaking, and without comment on upper and lower case symbols, ratings are as follows:

**AAA** – the highest rating indicating the obligor’s capacity to meet its financial commitment on the obligation is extremely strong and carries the smallest degree of investment risk;

**AA** - differs from a AAA rating only in a small degree indicating the obligor’s capacity to meet its financial commitment is still strong and is considered, along with AAA bonds, “high grade” bonds;

**A** – indicates the obligor is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than higher rated bonds though the obligor’s capacity to meet financial commitments is still strong and are considered upper medium grade bonds;

**BBB** – considered medium grade bonds since the obligor exhibits adequate protection although adverse economic conditions or changing circumstances are

more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

Further rating of BB, B, CCC, CC, C and D exist, but are not discussed for the purpose of this review.

The City enjoys bond ratings of:  
 "AAA" --Fitch,  
 "AA+" --Standard and Poor's  
 "Aa1"-- Moody's

### Measures of Debt Burden / Debt Ratios

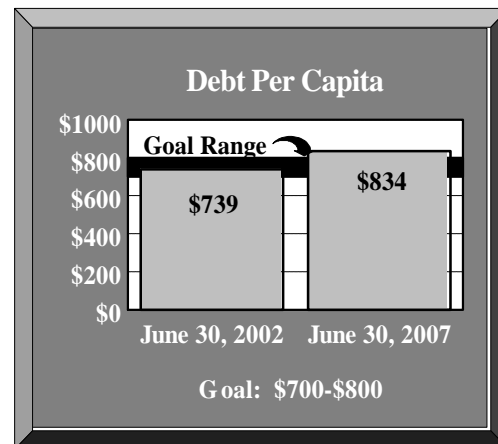
#### *Debt Management Plan*

The Debt Management Plan takes a set of assumptions, applies it to a historical database, and projects the debt for the future. Assumptions are reviewed annually to reflect actual historical patterns and projected changes to economical variables. For the purpose of comparison, the annual tax-supported debt is figured at \$12 million annually.

The Debt Management plan measures several indicators of debt burden in relation to the amount of outstanding tax-supported debt (e.g. that debt supported by property and excise tax revenues). Those indicators include: 1) debt per capita, 2) debt to full cash values, and 3) debt to total general governmental revenues.

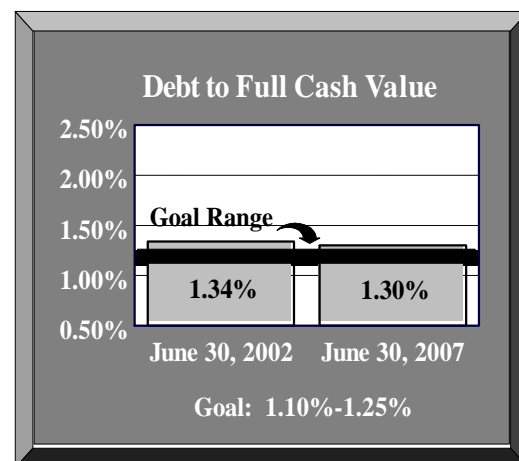
The debt per capita measures the amount of tax-supported debt for each man, woman and child in Tempe. Debt per capita is a relative measure that allows us to compare with other jurisdictions the amount of debt placed upon the individual.

**Goal: Debt per capita should fall within the \$700 - \$800 range**



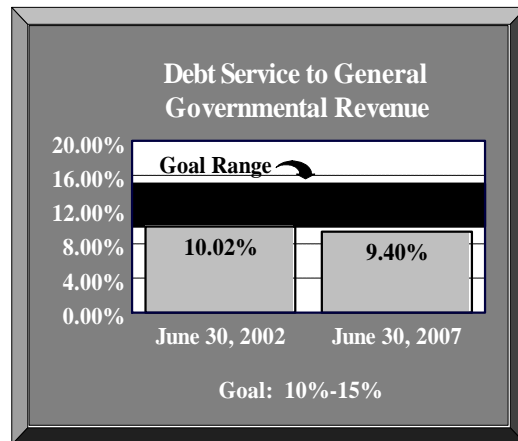
Debt to full cash value measures the amount of tax-supported debt in relation to the overall wealth of the community. Debt to full cash value is a relative measure that allows us to compare the burden of debt in relation to the wealth (assessed value) of the community.

**Goal: Debt to full cash value should fall within the 1.10% - 1.25% range**



Debt to total general governmental revenue measures the amount of tax-supported debt in relation to general fund revenues. Debt to governmental revenues allows the City to compare the tax burden of debt to our ability to repay that debt without impacting other operating budget programs.

**Goal: Debt to general governmental revenue should fall within the 10% - 15% range**



**Bonded Debt Margin**

Article 9, Section 8 of the Arizona Constitution provides that a City may issue general obligation bonds for the purposes of water, wastewater, artificial light, open space preserves, parks and recreational facilities up to an amount not to exceed 20% of the secondary assessed value of the community. Cities may also issue general obligation bonds for all other purposes (i.e. police, fire, storm drains, and streets) not included in the 20% Debt Margin category up to an amount not exceeding 6% of the secondary assessed value of the community.

FY 2001-02		
	6%	20%
Legal Bond Limit	\$86,268,910	\$287,563,032
Outstanding Bonded Debt Previously Issued	(52,315,000)	(90,650,000)
Bonds to be sold:		
Water/Wastewater	0	(10,000,000)
Storm Sewers, Parks	0	(3,300,000)
All Others	(8,700,000)	0
<b>Debt Margin</b>	<b>\$25,253,910</b>	<b>\$183,613,032</b>

**Debt Policy**

- Debt will be used to finance long-term capital improvements and not used to finance recurring operating expenses. Debt may take the form of:
  - General Obligation debt, supported by property tax revenues
  - Revenue bond debt, supported exclusively by the revenues from a particular City enterprise (water, sewer, golf)
  - Excise tax bonds, supported by general City revenue (i.e. sales tax)
  - Special Assessment Improvement District debt, paid by property owners within the District, and backed by the value of the land and its improvement
  - Short-term borrowing or lease/purchase contracts, supported by operating revenues
- Borrowing for other than capital projects may be pursued only when the project being financed is of a long-term nature and special circumstances are present to justify its utilization.
- Debt term should match the useful life of the bonds. The average, weighted bond maturity schedule shall be maintained at or below 15 years.
- Debt repayment schedules shall be based upon level annual principal and interest payments.
- The City will provide for a minimum of 5% of internal, pay-as-you-go financing for its Capital Improvement Program. Funding may come from fund balance reserves or any other acceptable means of funding.

- The City will monitor overlapping debt issues by including overlapping jurisdictions' debt burden into the City's benchmarking program.
- The City shall maintain a Debt Service Reserve in the amount of 5% of its total outstanding tax-supported debt.
- Outstanding enterprise fund debt shall be limited to no more than three times the annual operating revenue from the respective operations unless previous authorization is obtained from the City Council to exceed this limit.
- Authorized debt shall be limited as follows unless authorization is obtained from the City Council to exceed these limits:
  - General obligation bonds shall follow the guidelines established in the Debt Management Plan;
  - Enterprise fund debt shall be limited to no more than three times the annual operating revenues from the respective operation;
  - Excise tax bonds shall maintain revenue coverage limits of at least 3 times debt service;
  - Improvement District bonds shall not exceed 5% of the City's secondary assessed valuation;
  - Short-term borrowing or lease/purchase contracts must be budgeted for within the Biennial City Budget.
- The city shall adhere to a Debt Management Program. This program will size the City's tax-supported debt (excludes enterprise and improvement debt) based upon benchmarked criteria in order that the City not take

on debt that would adversely affect its budget. These criteria include:

- Outstanding tax-supported debt per capita
- Ratio of tax-supported debt to the fair market value of Tempe property
- Ratio of tax-supported debt service to general governmental revenue (i.e. General, Special Revenue and Debt Service Revenue)

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### **Debt Service Fund Structure**

A Debt Service Fund is maintained to receive dedicated revenues used to make principal and interest payments on the City's general obligation debt, except the debt service accounted for in Special Revenue and Enterprise Funds.

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### **Revenue Structure**

Debt Service Fund revenues are derived from the secondary property tax and the Salt River Project (SRP) Payment In-Lieu of Property Taxes. The property tax accounts for 94.4% of the Fund's revenue. Revenues from these sources can only be used to retire debt.

Debt Service revenue trends are a function of changes in assessed valuation and the City's secondary property tax rate. While changes in assessed valuations represent the effects of the marketplace and assessor methodology, the secondary rate is determined by City policy and debt levels.

The FY 2000-01 secondary property rate is \$0.81 per \$100 of assessed valuation and is expected to generate \$11.0 million. The City's property tax is levied



each year on or before the third Monday in August based on the full cash value of property from the previous January 1 as determined by the Maricopa County Assessor.

Additional FY 2000-01 Debt Service revenues include \$571,100 from the SRP Payment In-Lieu of Property Taxes and interest income of \$11,000.

Our estimate of FY 2000-01 secondary property tax collections was based on the commitment of the City to decrease the overall property tax rate (primary and secondary) property tax rate to \$1.35 per \$100 of assessed valuation. In addition, to ensure compliance with new state "Truth in Taxation" laws, the City has lowered the primary component of the tax rate to fully offset the effect of primary assessed valuation growth. As the primary rate has been reduced to offset valuation growth, the secondary component of the tax rate has been changed to maintain the aggregate \$1.35 rate. Consistent with the City's debt management plan, it is further assumed that the City will add \$50 million in new tax-supported debt over the next five years.

### **Expenditure Structure**

Expenditures in this fund are confined to principal and interest payments on voter-approved bonded indebtedness. To keep these costs in check, the Council adopted a long-range debt management plan which is updated annually based on population growth, tax base growth, and current levels of general operating costs.

Projected outstanding long-term general obligation bonds at July 1, 2001 totaled \$143.0 million, including \$70.9 million in Water/Wastewater bonds (not repaid by general tax revenues).

### **Trend/Forecast**

Annual operating deficits occurring in the early 1990's and until FY 1997-98 were the result of a planned drawdown of Debt Service Fund reserves utilized to fund lump sum debt service payments coming due during those years.

Assessed valuation in Tempe has displayed significant growth over the past few years, with increases coming from both market value growth and new development. In 1999/00, assessed value increased by 12.9%, followed by 9.3% growth in 2000/01, well above the 10-year average of 4%. Over the forecast period, we expect the level of growth to slow down to an average of 4% throughout the forecast years.

The expenditure forecast reflects two major assumptions: 1) the Debt Service Fund will assume a portion of the General Obligation debt service from the Transportation (HURF) Fund in excess of debt service limits established in the Debt Management Plan for the Transportation Fund; and, 2) the early repayment of newly-issued debt is planned over the forecast period, allowing the City to lower its outstanding tax-supported debt.

FYE	Debt Reserves
91	\$10,625,418
92	10,251,177
93	11,115,326
94	13,067,969
95	11,657,373
96	9,597,875
97	6,845,960
98	7,620,884
99	8,019,429
00	7,302,028

# Comprehensive Financial Plan

## Financial Action Plan





## Financial Action Plan

### Recommended Plan of Action

Several recommendations are offered as key elements of a financial action plan, which can be implemented to meet future operating and infrastructure objectives. Many recommendations are intended to adjust expenditure growth in order to keep the rate of expenditure growth in line with anticipated revenue growth.

#### ■ ***Expenditure Control/Supplemental Limits***

Decreasing personnel growth has the advantage of providing both near term benefits and long-term expenditure control for the City. The addition of personnel has a greater fiscal impact on a fund than any other type of budget appropriation. Any successful effort to control spending in the General Fund or any of our funds will need to be directed at slowing the growth in personnel and associated costs. For each one percent increase in staffing levels, expenditures are increased by \$600,000 to \$750,000 per year.

We recommend a continued annual evaluation of an appropriate General Fund supplemental limit, with consideration given to our long-range revenue and expenditure forecasts and how various supplemental scenarios will affect our long-term financial condition. Over the forecast period, we have assumed a \$750,000 limit for recurring General Fund supplementals.

#### ■ ***Maintain the Current Property Tax Rate***

Given the number of unfunded Capital Improvement Program projects, the City should maintain its property tax rate at \$1.35/ \$100 of assessed value in order to provide funding for its capital program. Each \$.05 change in the property tax rate either increases or reduces the revenues by \$650,000, capable of financing \$7.5 million in projects over a 20 year period.

#### ■ ***Modified Base Budget Plan***

Continuation of a modified base budget review program is recommended. This entails a review of departmental base budgets, with the size of modifications linked directly to financial forecasts. Modified base budgets incorporate historical spending patterns, price adjustments, and long-range forecasts, thereby limiting budgetary growth within departments.

#### ■ ***Continue to Limit Midyear Adjustments***

Even as the City effectively manages supplemental additions through the normal biennial budget process, there is a tendency to circumvent this process for additional midyear appropriations and personnel, often with little or no needs assessment, fiscal impact analysis or prioritization with other budgetary needs. The fiscal impact of these midyear adjustments poses a risk to careful long-range financial planning and should be discouraged except under unusual circumstances where an adjustment is warranted.

#### ■ ***Adhere to Debt Management Plan***

Continued commitment to the Debt Management Plan is strongly recommended. Sizing the City's Capital Improvement Program budget to the Debt Management Plan will stabilize per capita outstanding tax-supported debt while lowering annual debt service costs. This will also help to preserve our sound financial standing and bond ratings. Adoption of the Debt Management Plan has been one of the most significant financial decisions over the last decade.

*Any successful effort to control spending ...will need to be directed at slowing the growth in personnel.*

***Adherence to our operating budget, debt service, capital expenditure and investment policies...is the best strategy the City has to ensure its sound fiscal position.***

***Effective decision-making on economic development and redevelopment will require us to evaluate the relative merits of projects, placing an emphasis on those adding the greatest value for Tempe's citizens.***

### ■ ***Comprehensive Financial Plan***

The Comprehensive Financial Plan, along with the Debt Management Plan, have served as the cornerstones of the long-term fiscal strength of the City. We recommend a continued update of this financial capacity study to provide a long-term perspective to the policy decisions of today.

### ■ ***Identify and Limit CIP Operating Budget Impacts***

In addition to establishing a viable supplemental limit, identifying the operating budget impact of Capital Improvement Program (CIP) projects is a significant factor in achieving control over expenditure growth. We recommend continued efforts to refine the process of identifying these impacts and ensuring that provisions are made in operating budgets for these impacts as CIP projects are approved.

### ■ ***Financial Policies***

Continued adherence to our operating budget, debt service, capital expenditure and investment policies, while maintaining ample fund balances and reserves, is the best strategy the City has to ensure its sound fiscal position. These policies require periodic review to strengthen and update as necessary. The point here is to warn against "creative finance" solutions and the underlying impacts these solutions may have on the City in the longer term.

### ■ ***Protect State-Shared Revenues***

It is recommended that we continue our efforts in coalition with the League of Arizona Cities and Towns to protect state-shared revenues. They are very likely to continue to be at risk over the next few years. A freeze of state-shared revenues or a significant change in distribution methodologies could pose a costly financial risk to General Fund and Transportation revenues.

### ■ ***Economic Development/Redevelopment***

A further recommendation is to continue improving our economic development and

redevelopment efforts to increase property valuation, commercial growth and job growth in the City. Effective decision-making on economic development and redevelopment will require us to evaluate the relative merits of development projects, placing emphasis on those adding the greatest value for Tempe's citizens.

### ■ ***Review Benefits Program***

We recommend that the City explore employee benefit options to ensure that Tempe's benefits package remains competitive with other Valley cities. On the other hand, the city must also explore alternative means of minimizing expected increases in health care costs, both employee and retiree.

### ■ ***Rio Salado Financial Plan***

We recommend the continuation of the Rio Salado Project Financial Plan, which addresses operating, maintenance costs and debt service requirements. The City has created a Community Facilities District, a legal entity with assessment and taxing authority, that will provide part of the financial strategy.

### ■ ***Transit Plan***

With voter approval of a dedicated funding source for transit and the expansion of transit services, the City has created a 10-year Transit Plan. Also, Transit has developed an extensive benchmarking program in conjunction with the Transit Advisory Committee to evaluate services and assist in long-range planning. Both the Transit Plan and the benchmarking effort are valuable tools in the City's continued expansion of transit service and should be regularly updated.

*The challenge facing the City is to position itself to manage stability...and strategic opportunities as effectively as it has managed the growth of the past.*

### ■ ***Water/Wastewater Infrastructure Costs***

Careful financial planning will be required to address the increasing capital costs associated with water infrastructure and sewage treatment, primarily at the regional 91<sup>st</sup> Avenue Plant. We recommend a financial plan that minimizes sudden spikes in rates and controls expenditure growth.

### ■ ***Regular Review of City Fees and Charges***

Incremental increases in City fees and charges maintain the City's ability to keep pace with inflation. The City's long-term revenue outlook should include regular review of all City fees to ensure cost recovery as allowed by Council policy.

### ■ ***Program Sunsetting***

We recommend that the City continue, through the budgetary process, the annual sunset review program. This program facilitates a review of all existing citywide programs, using evaluation criteria to serve as guides in considering the merits of sunseting an existing program.

### ■ ***Strategic Issues Program***

The Strategic Issues Program has provided a linkage between the City's budget process (resource allocation) and the long-term goals of the City. The strategic issues are periodically updated and refined, while departmental budget requests are associated with strategic issues. This gives direction to the budget process and a clearer rationale for resource allocation decisions. We recommend a continuation of this process and further reinforcement of the value in linking budget requests to strategic issues.

### ■ ***Benchmarking/Competitive Analysis***

We recommend that the City continue its efforts in benchmarking and competitive analysis. These activities will provide the City with opportunities to evaluate and improve service delivery while enhancing accountability to the citizens.

has managed the growth in the past. Financial flexibility, which is often facilitated during rapid revenue growth periods, must be intentionally constructed through effective decision-making when managing stability. It requires reliable projections, clear priorities, effective planning, efficient systems, and continued adherence to sound fiscal guidelines. How well we manage these challenges will go a long way toward improving basic services provided our citizens, as well as improving the quality of life in the City.

The challenge facing the City is to position itself to manage stability as effectively as it